Investor Day

Company Participants

- Alex Maloney, Chief Underwriting Officer and Chairman of the Group Underwriting and Underwriting Risk Committee
- Darren Redhead, Head of Kinesis Capital Management
- Elaine Whelan, Chief Financial Officer and Chairman
- John Hamblin, Chief Underwriting Officer
- Paul Gregory, Chief Executive Officer
- Peter Scales, Chief Executive Officer
- Richard Brindle, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrew Broadfield, Analyst
- Andrew Ritchie, Analyst
- Angela Gu, analyst
- Ben Cohen, Analyst
- Chris Hitchings, Analyst
- Joanna Parsons, Analyst
- Nick Johnson, Analyst
- Tom Dorner, Analyst
- Unidentified Participant

Presentation

Unidentified Speaker

Welcome, ladies and gentlemen to our Investor Presentation Day. Thanks for coming along. The speakers today will be Richard to introduce The Enlarged Group; Peter Scales, CEO of Cathedral, will talk about Cathedral itself; John Hamblin, the Chief Underwriting Officer, will be talking about that portfolio; Darren Redhead will be talking about our Kinesis products in the third-party capital world as a whole; and finally, Paul Gregory will talk about what's new at Lancashire and summarize proceedings for the day.

On that note, Richard, I'll hand it over to you now.

Richard Brindle {BIO 1983776 <GO>}

Thank you very much everybody for coming. As I said in my remarks earlier, it was clear to me at the beginning of this year that we were in a rapidly changing market and whilst we've had a tremendous run, as you can see from all these different data points. Really by every measure since inception, we've remained incredibly faithful to our original business plan, arguably sluggishly so. And it's actually arrogance and some more pervert in the end to persist with a single business model in the face of quite rapidly changing market conditions.

I felt we were too narrow as a business, that's Lancashire on its own for a prolonged soft market, which is frankly what we're all facing right now. And it's all about finding the right partners. We weren't going to do this for the sake of it, but to find a partner like Cathedral, which sparing my blushes out, you ask anybody in the broker or Lloyd's community, they will speak to them as a highly focused, a real band of brothers and sisters. They've had remarkably a little staff turnover. They lead an enormous proportion of their business.

They work incredibly hard on their broker and client relationship and they're really quite like us in that respect. They write a different book. We write the big alliance. We buy less reinsurance, but the underlying philosophy is very similar. It's work hard, play hard, focus on new broker and client relationships, don't chase markets, focus on what you're good at.

And I think it's fair to say even that we technically haven't even built them yet, but there's really a tremendous rapport within the teams. We're already looking at all sorts of things we can do together as a group and it is exciting. And then, of course some third-party capital side, they didn't come more experienced. Darren, I think he wrote the first cap bond in the mid '90s, he's done this for years. We couldn't have a better guy to run our third-party capital division. He has worked terribly hard over the course of the year with Goldman's to align buyers and sellers, in other words, investors and purchases of the Kinesis product, and everything is looking good.

We're not looking to rule the world, but we're optimistic we can put a decent amount of money to work at 1.1, and it's exciting.

So, we come to the end of the year -- end of the year store before, so dividend yield. And that's really where I'm going to close. We end the year with a power of three, the three parts of the group coming together in a very entrepreneurial and collegial spirit, and it's exciting time. So, that's enough for me and I'll hand over to Pete. Yeah, Pete?

Peter Scales {BIO 2108933 <GO>}

Thank you. Good afternoon, everyone. I'm Peter Scales, Chief Executive of Cathedral. I have with me some of my colleagues to explain about the underwriting activities at Cathedral and hopefully show you what we can bring to the party at Lancashire. John Hamblin, the Active Underwriter of Cathedral Syndicates 2010 and 3010 will shortly tell you the lines of business we underwrite. He is joining the audience by Simon King, Underwriter of our Direct Property Unit; Richard Williams, Underwriter of our Aviation

Reinsurance Unit; and Mark Wilson, Underwriter of our International Reinsurance Cap; and most for our insurance.

If anyone has any specific questions for them or would like to speak to them afterwards, they are there. Your next slide behind me has some similarities to one of the ones that Richard flashed through earlier. So I'll spare you rating that out one more time. It does have the benefit of being entirely true, and a very did close to why the Cathedral team delighted to be joining forces with our new colleagues at Lancashire and Kinesis.

Since inception, Cathedral was underwriting in areas where they market leaders or price makers. Each underwriter sets out his own business plan, in accordance with how we see market conditions to best make a good return for the sensible level of risk. It will saves income, exposure, reinsurance expectations and comply with our strict risk management and compliance net, but within he's effectively a sole trader.

Each line of business is reviewed by the Group, then shown together to form our trading portfolio rather than being driven from the top downwards. The aim of ours rather unusual model is to have a string of corner shelves if you, which should go to the markets both client and broker in the specialties where we are acknowledged market leaders.

Our underwriters are enabled to trade by first class systems and people. Many years of experience, a healthy paranoia about exposure, but they're also about maintaining and growing significant long-standing relationships with both clients and our brokers.

Some familiar faces in the room. And questions we've had so far on my absence with Johnny, so we feel we pick these up here. Why so Cathedral? As a bound of people, we formed the business 12 years ago. We recognized that market was changing around us. Our existing ownership structure didn't readily permit us to access or certainly at sensible cost, additional capital. The team felt, I could better leverage the talents that we had on a bigger balance sheet and a more appropriate structure going forward.

It's very attractive to our corner shop proprietors to have potential access to other balance sheets to leverage their market position to the compelling opportunity arrive at the door, and it's again Lancashire and Kinesis. We've had some of these rare opportunities in the past, there hasn't always been possible statements to the full potential. Now we have our ability. I'm hopeful this structure may look attractive to other market leading underwriters in due course.

Our smaller wholly-owned Syndicate 3010 provides a ready-made platform to build out in tandem with our colleagues at Lancashire. Syndicate 2010, our large original syndicate where we own 58% of the business, the rest is supported by third-party capital already, otherwise known as Lloyds names. Let's forget Lloyds actually being the third-party going for about 325 years.

To summarize before I hand over to John, our business started in 2001, it's as I mentioned in my minutes along the way, they remain profitable throughout. Notwithstanding the various losses to our market, if you asked anybody at Cathedral, they're ideally the best performers is they're been and more testing years. Since 2001, when we set up 2005, 2011 and perhaps honorable mentions for 2004, 2008, and 2010.

This is a reason by building quality teams of both underwriters and very importantly those who allow them to operate effectively in the model we have. Building some underwriters with clients and brokers is essential to our business but that's done by adding value to the whole process, and not just capacity. All the time, we're doing this and we still bear in mind, that if you sell a dollar of your balance sheet, you can also lose it.

And with that, over to John Hamblin.

John Hamblin {BIO 2175577 <GO>}

Thank you. Hi, good afternoon. As Pete says, something was called the active underwriter of Cathedral, that is in no way to imply that the other underwriters in front of you are inactive in any way. Assume they gets the PRA in the Lloyds franchise border collective field should they certainly get the urge.

In my spare time, I underwrite the U.S. Property Reinsurance account and have been underwriting in the catastrophe for market for just over 38 years. Syndicate 2010, the larger of our two syndicates' rights, three principal lines of business, being property reinsurance, direct and facultative property and aerospace reinsurance.

In addition, we have two smaller lines, so I want to go to, yeah, we have two smaller lines; contingency business and cargo. The last of which the cargo account is written entirely in the Syndicate 3010 which as Pete said earlier as wholly-owned by Cathedral and now Lancashire. Our appetite is very similar to Richard's short tail business, we don't write long tail lines. We have a lead capability in each of our chosen specialties, and each of our underwriters has at least 20 years of experience in their chosen lines of business.

Of the 62 people who work for Cathedral, only 14 can accept risk for the Syndicate. And a further eight, map, measure, manage and model our aggregations. We have extensive reinsurance arrangements in each line of business in order to manage our net exposures to major events, as well as a long history of reserve redundancy. I have a slide on each segment coming up, which describes the business in more detail, in which you can read it at leisure, but I'll hit the highlights for each account to give you a flavor of what we do.

The property reinsurance account is principally made up of two products, catastrophe covers, covering the accumulation of risk from a single event and risk excess covering a large loss from a single-risk event. This broadly splits into US Cat which represents around 40% of the overall business and international Cat which is best described because everything that isn't US at around 35% of the business. Risk excess is 18 and the balance is made up of retrocession which is the reinsurance of other reinsurers. This accounts producing average net loss ratio of 62% over the last 10 years that includes 2005 with similar or better results for the old years.

Our US catastrophe account written by myself and Nick Destro. And it's pretty unique at the Lloyds terms or elsewhere for that matter. And that is entirely made up of reputations of local, regional, mostly mutual insurance companies and comprises of around 300 clients of all sizes and specialties. The majority of these companies are intensely locally in their exposures with most writing business in three or four states, a large underwriting in just one state and some writing in just a few counties of one state.

If you write a Cat cover from major national stock companies such as real estate or travelers, the loss is big enough, the program will be a total loss regardless of the event or form it takes. The local major of our regional account enables us to better choose our geography and to measure our exposures. Our largest exposure in New England for instance, and we have a very little in places like California. It's a well-balanced book with Florida, representing 8% of the account. Because most of companies we protect mutual's, they have to buy cover. They need to protect their capital and surplus, which in many cases has taken them over 100 years to build up.

They buy proportionately far more cover than their stock company cousins because they buy it to protect their capital base, not to manage a quarter's earnings. As a result, they don't treat their reinsurers as a commodity, but as partners. And in return, they expect us to understand every aspect of their business and the territories they operate in.

The slides on the left hand side, I think if you look, yeah, slide sizes are account by the premium income of our client base to give you some idea of the size. As you can see, around a third of the companies, which make up the book have writings of less than $20 million of premium income, nearly half have less than 50 million. Typically, these companies write houses, cars, farms and small main street commercial business such as local hairdresser or the bookshop. Their exposures are typically rural or suburban borne out by our 9/11 loss, which added 2% to our gross loss ratio on this account for the simple reason, there aren't many farms in Manhattan.

Where we write an account that could be categorized as having exposures across the US, then it's likely to be a company that writes something pretty specific such as churches, classic cars, or in one case they just write drug stores. Business which is geographically diverse by its nature.

And our relationships are as I think Richard mentioned, relationships are key to this book of business. We travel extensively across the heartland of America, meeting our client base in their home office, whether it's main Texas or Ohio. Typical week on the road will involve about a 1,000 miles of car time and lots of western points, there is no glamour in this job. Lot of road killers as well. And of course many of our clients do come to see us in London, as well. And as a result, we've had a very large degree of customer loyalty, demonstrated by the chart on the right hand side of the slide, which shows that around three quarters of the account has been with us more than 10 years, and over half have been with us for more than 20 years. And many are good deal longer than that.

We've seen them through the market dislocations post our calendar in 1992, 9/11 and 2001, and retain them throughout the arrival of the median classes of '01, '05, '08. They are intensely loyal as long as they feel of being fairly treated, they're pretty low to move.

As you know, the outlook for 2014 for U.S. Cat business is that the market is likely to be highly competitive and the reason given my most observers is the inflows of capital, the new capital or their less markets. These markets are very unlikely to be a direct competitor of ours, because our clients cannot tolerate any basis risk in their reinsurance covers and they are temperamental cautious of anyone they suspect may not be a long-term supporter.

Collateralize cover, which as you know is removed not long enough to expiry, doesn't fill them with enthusiasm either. So, our competition and of course there will be competition next year will come from other traditional reinsurers who is going to lose large chunks of their business at the commodity end of the market, and they'll seek to replace lost income by entering our space. I am very confident, we'll be able to defend our account at acceptable terms going forward as we have in the past.

To complement and diversify our US writings through our international book led by Mark Wilson, who also buys most of the Syndicates reinsurance. And also he's assisted by Simon Dean. This focus is on a more developed markets of Europe, Japan, Australasia and Canada. Here we take the same approach broadly as the US account in focusing wherever possible on regionally exposed companies, particularly in Europe, Australia and Canada, again, client relationships are key.

And although our line is small in global terms, we're well acquainted with the buyers and senior management of the vast majority of our overseas clients. As well as the developed markets, we have some exposure to Latin America, Caribbean, Africa, Middle East, but we keep these areas fairly small as they tend to be more price sensitive than the rest of the portfolio.

As for the US, we expect some softening of the prices in the international arena with the post probable exception of parts of Europe, such as Germany, where there has been a fair amount of Cat activity in 2013.

Now Direct and Facultative proxy account led by Simon King and Richard Wood. It's quite different from the Cat book. It splits into two main pieces, the largest being our open market business, as to say, the business that we see at the box in Lloyds to brokers. The other piece is delegated underwriting facilities or binders which are issued to agents for small business, particularly in places like the US and Canada. Our open market business represents about 60% of the account and binders represent around 40. About two thirds of the account is from the US and the rest of world makes up the other third.

The vast majority of open market, the open market account is commercial property of all sizes from Fortune 100 to a corner shop in the Midwest. But the bulk of our account is typically smaller to mid-size commercial property with a soft occupancy such as offices or real estate.

I was actually in the line per risk is $15 million, our average line is only two. On the binder account it's less than a million. 95% of our premiums generated by lines of less than $7.5 million and the Lloyds model, you do not need an enormous line to generate a profitable account with significant volume.

The American business is all received to surplus lines, which is no surprise as Lloyds is, the largest writer of US surplus lines business in the world. Lloyds is also an admitted market in two US states Kentucky and in Illinois, but we choose to write all our business at unregulated rates on unregulated policy forms.

Now unlike the property treaty account, they're from marker direct and facultative account is more opportunistic book, relationships tend to be with the broker and post loss, we deploy capacity rapidly into areas of markets dislocation. For instance, three years ago, as much as 75% of the book came from the US, since the losses in New Zealand, Australia and Mexico in '10 and '11. The international content of the book has risen that's reflected tougher market for companies in those territories have pricing, which rose dramatically post loss, for example, before the earthquakes in New Zealand, we had around a million of premium in the entire country. Now with the local markets still in disarray. We row five times that figure at rates that are multiples of what they used to be.

When other players return and prices begin to drop. We are very likely to leave as we did in Chile following earthquake there in 2010. In the two years following the loss in Chile, we tripled our exposures when the other markets returned, we simply reduced the book back to what it'd have been.

For the binding authority book, which consists of 140 agents, the relationship is very similar actually to the US Property treaty part with the cover holder relationship is absolutely key. Many Lloyds cover holders have had these facilities for decades; they regard them as highly prestigious and ensure they look after them. Historically, the results on our binder account have been extremely good with the rates on this business is still rising albeit at single digits. This book of business has made a gross underwriting profit in each of the last 10 years since the team came on board and that includes 2005.

The third principal leg of our business is Aviation Reinsurance, which is a slight departure from what most people do led by Richard Williams and Dan Warburg, where half the account consists of catastrophe cover for the insurers of the world's major airlines and aircraft manufacturers. A typical major airlines protects both of their fleet of airplanes and also buy its liability coverage of around $2 billion to protect itself against passenger in third-party claims should the worst happen. In very round terms, the catastrophe market protects the insurer for around about 3.75 billion in excess of 250 million. To protect them for both the single aircraft loss and a multi aircraft scenario, so coverage is usually spread over a number of players.

In spite of having a rather modest 2% to 3% market share, we are one of the three major leads for the business worldwide. With a lead position on 60% of the business we write and on around 40% of global market placements. The reason for this is simply that most other reinsurers such as Swiss Re and Munich Re, also act as insurers for Airline business, where we only write the reinsurance and perhaps understandably clients prefer having their business led by someone who is not a direct competitor.

We offer other products such as war and general aviation covers as well which many others do not. And aviation represents the only liability exposure in the Syndicate part, and the events for major airline loss to reserve is normally established in a very short time with settlement following on average in three to five years. There are no other reserving issues associated with longer tail lines, no one has ever come to us yet and just remembered they lost a jumbo 300 people on it, two years ago, and forgot to mention it.

We do write some proportion of business, but this is focused on -- its currently focused on smaller sort of niche players. And the direct airline insurance market has been very, very competitive almost since the Wright Brothers took off. But on the other occasion when it's looks good such as '86 and 2002, it gives you some idea how often it comes around, for post 9/11, we will deploy an opportunistic alliance between the current one or two clients before it quickly softens again. And we've also written a satellite account since we started, which has outperformed the market every year.

Okay. In 2007, we started the Cargo. Cargo and Specie account led by Alasdair Butler and Lee Aspinall who joined us from Beazley. All of which is written in Syndicate 3010 which is wholly-owned by us. Those account is a Classic Lloyds Cargo business covering all types of cargo. General cargo makes around 60% with the trend set of commodities such as bulk raw materials, minerals, oil, gas that sort of thing, making up just under 25% of the account.

As with the direct and fac property account, the cargo splits into open market placements and facilities, but with a much higher percent of business plays through facilities as most shippers obviously make multiple shipments throughout the year. Cargo represents around some 75% account, Specie which consists of both risks, fine art and the jewelry makes up most of the balance. These accounts are typically much less exposed to Hurricane then our property account.

The accounts been steady growth since it began in spite of the market being dogged by over capacity. Once again, this is due to relationships our underwriters do that over many years with shippers and brokers. And while most cargo writers focus on large value shipment such as oil, which we also write, we have developed a number of profitable niche opportunities in these popular areas of the world such as Africa and parts of the Middle East. It's kind of hard to nick 10 tons of iron ore even if you're in the middle of Africa.

As global economic activity picks up, so of course the number of shipments both in raw materials and finished goods. So, well, the market remains competitive, we feel very good about our prospects for growth in this line. And finally, our smallest account led by Justin Burns and Jane Todd and it's Contingency. And contingency in the insurance will covers a multitude of SINs, but ours is about straight forward as they come in and the vast majority of our business is for non-appearance in the rock and pop industry. In brief, we are indemnify the insured should be entertained, but unable to pay us through illness injury or death and that includes falling out of a coconut tree, which of course we paid down some.

God bless him. Typically the borrowers promoter could -- but he could just as easily be a member of the band who is a session musician anyone get paid if the main artist is struck down by something or it might be a T-shirt salesman who's got 2000 T-shirts, which say Joblo live in London for one night only and date on it because Joblo doesn't turn up, will be paying for the cost of reprinting his T-shirts.

As with our other accounts, we have strong relationships with key promoters and we have been successful in developing number of facilities or more events such as the U.S. college circuit. We will look at other contingency lines, but at the moment market is competitive as it is, we tend to leave England. So that's me down. As Peter said, our main underwriters here say you have any specific questions on any aspect they can't describe one of them off too. Thank you.

Darren Redhead {BIO 17995744 <GO>}

Good afternoon. Just a brief introduction about myself for those you have met me over the last few months. My name is Darren Redhead. I joined the group in March. I've started industry at 1982 and (inaudible) so live started with the tradition cycle, traditional world in the mid-90s kind of got a bit light moon. So we have alternative capital starting, issued one of the first cap bonds, first Moody class cost cap bond. But probably back then it was very too early and just started to come back to traditional industry help from -- and helps so that's about this and then run back.

So we turned well and started up the shows collateralized vehicle in the media from 2007 through 2010.

I always wanted to share on this slide, but everybody talks about the collateralized market and so forth. But if you see today 2000 if you like 13 as $44 billion worth of collateralized limit sold in the world.

If you look at the growth and really the growth comes from '04 and '05. In 2005 you see those $10 billion worth of limit and today that's 45 billion. The real growth over the last few years has been if you like the collateralized reinsurance area where the collateralized market is access reinsuring the direct, some driving is high, US high is actually if you like easing the business of the traditional reinsurance and that's been a phenomenal change over last two, three years, and you all heard about ramifications that's had within industry.

So, it is worth touching on is those fund managers that manage money for setting there really aren't getting any performance fees, they are just getting, if you like, management fees because they are very much feared as this an investor and see there was all that actually adding any value. Where do we think that $44 billion, $45 billion is going, you probably heard some numbers of 100 billion, 200 billion. As that you got actually look the size of market is $300 billion of direct capital purchase worldwide approximately to some to 250, 350, so that's $300 billion. So that $45 billion is taken part of that $300 billion.

Will it go to 100, personally I don't think so, will it go to 60 billion, 70 billion I think so and I think most of the growth will again be in that collateralized area. But they are taking predominantly top-end business in cut areas, where there will cut areas, but in USA win quick and then they move thing to Japan and Australia. And that's where you are going to see the growth.

And this is all subject no losses, if losses happen on the market, I think you could easily get to the 100 billion quite quickly. So I think it just worth setting in the same way where the market is today.

What have we done within Kinesis, what are view is, do we really want to just go and fight with everybody else and destroy why US cap business not really identify, not Lancaster is strong, very much within if you like Lancaster D&I is trying to create value it was those if you like, non-cap classes where it has lot of traditional ratio, we have expertise in pricing of those with our models. So really what we're doing is in Kinesis is back in to that infrastructure D&I and creating products to so and so market, this is property, but packaging up with terrorism, I guess 52, I guess more brain and energy all areas that we have expertise as Lancashire, where if you like the other collateralize sellers really of just sold and sells on easily on. To be honest, here is the model, here is hero, let's see what models we can get. We are actually much more back writing value and underwriting risk and designing a specific product, for -- if you like potential customers need. Very much similar, you've been hearing from the other guys and very much underwriting the risk, not just trying to follow the market in the commodity. So you've seen that before, I just wanted to give you some background.

We're expecting to rise during 2014 between $300 million to $500 million of capital structure. The fees will be similar to what we had before within Saltire as a group. Lancashire will actually provide an investment alongside the third party capital.

And very importantly, in one conflict with our existing business side, we're not just doing this. It is cannibalize our existing business. There's been some other side costs if like doing the rounds with full year-end another maybe half a dozen or so, all looking to right U.S. Cat business and cannibalize the existing portfolio, i.e, requires our capital for us. That's just the fees to subject, the purpose of third party capital is really for the investors come in and if you like have a pure investment, this is using as alternative capital.

Leverage Lancashire expertise in our specialty lines whereby if you like our peers come, a huge amount of R&D is going on in. Rather than just raising the capital, we want to make sure the non-financial product is there. Where that's been at least six months sitting that with the broken commodity, the potential clients sitting down designing products that I actually want to purchase. We will make sure before we rise any capital as there is a real demand for the product. The worst thing we can do is actually raise capital and there's no incline in the customer for actual thing and they are not prepared to pay the prices that you are. So, a huge amount of that's been done.

Our average product if you like will have an estimated EO of between 8% to 10% and which will be charging the client between 20% to 25% net of acquisition cost.

In addition, just if you like this multi-class reinsurance solutions I've been talking about, this one if you like Kinesis only product who are actually looking at maybe providing some form of regional solutions, capital relief for Lancashire as a group and in addition backing into a large energy portfolio where we have existing relationships with producers and operators within the Gulf or maybe some form of Cat solution will be structured through the, I mean, we touched on this already before.

What we were trying to do is a multi-class solutions for people. You can see the pricing there. But rather than this a straight product, it will provide frequency or severity cover and it will fit around where actual people approaching the moment rather than one of the major peers or two of them actually turn up and say this is the product, do you want to purchase it? You only really purchase a fixed product, if it's cheap. If some might see you prepared a bit more for it because it actually protects you where you want the protection. If someone just turns out with someone who says X over Y, you're only buying for one reason because you think it's cheap.

This last slide here really is just an example of what we are trying to do is trying to show it graphically. The one at the bottom is probably easiest one to understand. See the bottom, someone is buying cover there for property Cat, terrorism and marine. What we're saying to the potential customers is you're paying for three limits today, you're paying for three loss of reinsurers margin. One by one limit that covers all three.

You only have one limit, you don't have the same as a coverage. It will be cheaper, more efficient than the three but provide -- it will provide you a cover. It will be a zero cost of capital because the probability actually hitting those individual pillars in the same year is very minimal. See, you don't need any additional capital when there will be reinsurance savings already. So that really is the -- if you like to stay to market, what we're trying to do and say it's different in product wise back in Lancashire D&I not just following the crowd and selling property catastrophe reinsurance. We very much trying to a create products that backs in to the Lancashire expertise and distribution.

With that I'll hand over to Paul, who take you through the Lancashire.

Paul Gregory {BIO 16314515 <GO>}

Afternoon, everyone. And for those of you who don't me, I'm Paul Gregory, I'm of the CEO of Lancashire, London. As you can see, we've been pretty busy at Lancashire over the past year building our great platforms with the acquisition of Cathedral with development of Kinesis being the latest situation of our third party capital story. And while this is being on going the traditional part of our business has been continued to evolve and adapt in line with market conditions. As Richards and Alex have alluded so in the earlier earnings calls that we had, we do find ourselves in this competitive market with a number of challenges, primarily through new sources of capsule, whether that be third party capital in the reinsurance sector or the re-emergence of break facilities in the direct insurance lines.

So with this in mind, it's fair to say there is a little bit of pressure on the right scenario of specialism, also right, so I'll move in the wrong way from our perspective certainly. We're not yet in free to buy anyway and we've got to put things into context both from the level from which these rates are falling and also the underlying profitability of the accounts that we write. So going for a wagon wheel, in the lines of business in the traditional Lancashire portfolio and I'll start with energy.

We have been seeing some gradual right reductions throughout the year. Nothing too drastic, but it's worth remembering that we're coming off four years of continuous rate rises. And the relative rating level is pretty close to that by 6, which is not bad price to come from. The marine market is broadly stable. There are some of the ancillary lines such as MII more that seems very marginal rate reductions and we do expect to see some rate rises for P&L exposure is in the early part of next year.

The AV52 products remains fiercely competitive. It has been for a longtime now and we will continue to be so after any significant market losses. But has been for people with incredibly profitable part of the aviation world. The energy book is very similar to -- sorry, the Terrorism book is very similar to our energy book. Rates have fall slightly during the year, demand has actually been very good and when underwritten well, the Terrorism book formed an incredibly profitable part of our portfolio.

It's been very well documented, the guys has spoken about it earlier. The impact of third party capital of the reinsurance sector is no doubt in areas such as U.S. Cat that we're getting pricing pressure as a result.

Again we mustn't forget as far as that reinsurance portfolio, it's still incredibly profitable and there is a Japanese portfolio close to historical highs. Within the lengthy portfolio, we have been looking out, looking to build out our property Cat book, more cool book of business that somewhat mirrors our energy, terrorism and other direct line business that we have within the group.

We will continue to do this over the coming months pioneering the areas that we feel deserve to be grown and merit such growth. Clearly, we've always had and always will subject market conditions strong weighting towards insurance lines. This is actually pretty beneficial in this market for the reason I've just mentioned, with third party capital, we're unable to get into these areas of business.

On the third party capital side, it should also be noted that competitive reinsurance market is by no means a bad thing for us. As a group, we are really big buyer of reinsurance. So any competition within that market brings a number of benefits from an outward reinsurance collection perspective.

All these challenges we've seen before they're nothing new, we'll see them again, I'm sure. But our commitment to risk selection will remain. It's probably more important today than it has been in any of the years that we've been in business. You've heard about both Cathedral and Kinesis, which are clearly new ventures for Lancashire.

Over the past three years, we've been accordingly making subtle changes to our traditional portfolio in light of market conditions. We have the major opportunities, we've entered those markets with new and complementary subclasses.

We started with our interest to dissipate discovering optical space in 2009 and is to be built out further with lines such as energy liabilities, property proportional and satellite. All of these developments to drive from small niche underwriting opportunities which highlights our ongoing ability to remain flexible around the edges of our core portfolio. This flexibility and fleet footedness has always been and will always be a key part of Lancashire DNI. And the lumps in Bermuda platform provides a perfect platform place from we used to do this.

Hope that you've seen the philosophies are very similar. But the underwriting approaches of Cathedral is different. As John explained earlier, one of the most significant lines of Cathedral write is a property D&F portfolio. This is a class that Lancashire exited in 2012, so it's probably worth and then a little bit time just to explained in the difference in approach.

As a general rule, Lancashire look to deploy big lines on fewer contracts, whereas Cathedral acquire frankly the opposite. Much smaller lines across the broader policies. And it's probably this is a best differentiator approach to D&F. While Lancashire will look to deploy large lines at a very top end of programs, Cathedral will target smaller lines on primary and layers, which in turn is complemented by very well structured and comprehensive reinsurance program.

Whilst the Lancashire approach was profitable, particularly in a hard market, it just wasn't sustainable through the cycle. Given the potential volatility, capital implications and parameter risk at those large lines approaches. The Cathedral approach provides a stable and profitable through cycle portfolio, as a result in this class demonstrate.

As you've seen and heard it's not just the Cathedral D&F portfolio that is incredibly profitable, but this applies across all the lines of business. And as Richard referred to in his opening remarks, this is a rare opportunity for us at Lancashire to acquire a high quality business with a lowest platform with an excellent group of people, with a similar philosophy and a portfolio of business that dovetail nicely with us.

As we've demonstrated ever since our inception, we will adapt according to the market we see before us. We done this with our underwriting, done this with our capital management, and now you're seeing us do it with our broader strategy.

Whilst doing this, we'd always remain true to our founding principles, we now just have the added flexibility of three platforms and a vastly improved bench strengths. So, whilst we acknowledge that we're operating in a competitive market, we feel we're pretty well placed. We now have three platforms, which gives us increased relevance, greater flexibility, and broader broker and client relationships. All of these are becoming increasingly important in a more competitive marketplace.

Thank you. And I'll now hand over to the team for any questions that you might have.

Questions And Answers

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. I'm Ben Cohen at Canaccord. Can I ask two things. Firstly, on the reinsurance buying that Cathedral does. Could you talk us through sort of how your relationships with your reinsurance have worked, have they been profitable on your book over time, and what outlook do you see in the context of pricing coming down in reinsurance field margins looking into 2014? And if it's not stretching one question from the Lancashire sort of thinking on a bigger group point of view, how your discussions been so far in terms of whether you would look to change the buying habits of the past?

Operator

Okay. Ben, I assuming my mike is on. Here the answer is yeah, we protected the account pretty comprehensively over the years, which is why we didn't lose money in 2005 or 2001. Half the way, we approach our buying, we were -- if we can get a traditional reinsurer which the vast majority of all our programs are really go around the edges, then we will do so, because we were not great. If you have collateralized as a loss against taken away, particularly in the case of something like earthquakes that can get a lot worse over three, four years down the road and suddenly haven't got a collection.

So, we have a cool panel of reinsurers and what we do opportunistically purchase around the edges of that. Half of reinsurers said, quite honestly not terribly well because we tend to buy that opportunistic purchase tends to work quite hard. So, I think I'm right on saying that roughly, I think premium and claims over the last 10 years or so been a pretty much reward.

Q - Ben Cohen {BIO 1541726 <GO>}

Yeah.

A - Unidentified Speaker

Yeah. I think we've collected $0.98 in the dollar or something like that. Obviously, the vast majority of that is the years like '05 or in '11. What so, there was the other part of the question was.

Q - Ben Cohen {BIO 1541726 <GO>}

More towards that, I think actually have effects Lancashire Groups to reinsurance?

A - Unidentified Speaker

I think all reinsurance programs to get room, you get a horrible synergies. While, I think it's fair to say, even playing Cathedral's one side with the market changing and the opportunities we see, we definitely going to look to arbitrage some of our lines out this year and next year. Whereas in the part of the business, we're so good and so profitable result scheduled for ourselves, but we just see great opportunity. So I think you will see a change in our reinsurance spend in the next couple of years until the market changes.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks.

A - Unidentified Speaker

Tom?

Q - Tom Dorner {BIO 15847486 <GO>}

Hi, its Tom Dorner from Citi. My first question is for Peter. You mentioned when you were talking about the benefits of joining Lancashire, the ability to leverage bigger balance sheet. I wonder, is it fair to say that perhaps under the previous structure you might have been a little bit too risk averse? And could you make an argument to say the business has been under earning its potential and now, when it joins Lancashire, there might be upside potential to the earnings from Cathedral?

And the second question is for Elaine, I think, you mentioned -- I'm trying to get a sense of the upside potential from Lancashire Capital Management as a whole. I think in the past, you've said that might add something like 2% to 3% to group ROE. Is that's -- now that you'll further along with the marketing the product and so on, is that still a fair assessment?

A - Peter Scales {BIO 2108933 <GO>}

The answer to mine is, yes, absolutely and yes, but if you let me to throw color on that.

Q - Tom Dorner {BIO 15847486 <GO>}

Yes, please.

A - Peter Scales {BIO 2108933 <GO>}

The business was built from scratch. The management team have much of the personal world tied up in it. We, our investors of private equity, partner who have been excellent partner for us, but having expensive course of capture which actually fells and go back to the top for second time that necessarily constraint you all risk, why you've gone. Hindsight's wonderful thing where their market is weaker, stepped on the behind and taken more risk.

The value we see in our business is having everything we do is go-to-market, either for the broker. So example, After Katrina, where Simon have a line, probably eight or ten the size of the Hiscox, so Wellington and Catlin, the morning after Simon is still there with his line, and all the brokers love Simon, the other guys have gone home, because they are not allowed to stay by the reinsurance. He's being consistent, he's being able to do it.

Have we maxed out where we could run it, absolutely no. We've always looks after the various situations of shareholders' money first and foremost. We are paranoid about exposure management. All our business planning starts on how much can be lose and how ways can we lose it, from how much do we make. We are naturally trying to see some from that disposition.

In terms of leverage of the business, we have naturally showed, we have used to eight, ten years governing parts on a good market.

But naturally, we kind of shied away from it. All of those things, which you've correctly identify means, I think somebody pointed out to me, we have -- the business is also have plenty to evolve and too much. And in terms of making an efficient machine which it could be, without doing anything to shock, there are massive benefits from taking that into the wider balance sheet.

One of the things that droves to make the decisions, which I think about one of the slides, so the business was to make it more efficient and broad now the potential we have of the resources, the connections, the quality that counts the underwriters in the business. That comes two ways: one is, so the underwriters is going to now at the right moment deployed the Lancashire opportunistic phase.

So if we have a proposition, is now lot more parts where the proposition might arrive, which would then go into the Lancashire (inaudible). The other side of it is, the truth that we've been very conservative on capital side as well, but only because we never had any where to go and get any more money other than keeping for a rainy day. Because we have knowledge also that to trademark you've got to pay that so you have to deal with that. So that's kind of also, yes, it has been overly conservative in the past. One of the benefits we see is, it shouldn't be in the future which should increase base returns.

A - Unidentified Speaker

Elaine?

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. And in terms of the priced capital, you're pretty much buying on the numbers. And just -- there is just three ways we get it, the financial benefit from it. First one is from our investment in there and underwriting fees, which tends come through a little bit faster and then ultimately we get a profit commissions as well. And once they start flow into their nothing we get up if it two's three, points ROE. And so the other state is, we're going to be better in extra point in ROE and then later on it develops in the PC start flowing through, we are going to 2% to 3% and depending in size, can you (inaudible).

Q - Tom Dorner {BIO 15847486 <GO>}

And over what period will you expect the profit commission start emerging?

A - Elaine Whelan {BIO 17002364 <GO>}

Profit commission going to come in -- and once we finish this period of time after that. So there is a lag on them of six month to 18 months depending on what's been on that year.

Q - Unidentified Participant

Hi. (inaudible) from Deutsche Bank. And couple of questions for the Cathedral team first. Comparing your combined ratio to the core Lancashire business, the same dealer should be higher, but a bit more stable. Could you give us a sense of what a normalized combined ratio might be? And also what is a big loss for you. So maybe was some of those big losses have been enough for kind of volatility we're talking about here?

And secondly, in terms of top line growth as you will through the business, it's quite clear to you focus more on smaller and ticket business with quite small premium volumes, presumably that means it's quite hard to grow particularly fast, just wondering what your thoughts are on that, both in the near term and also maybe some medium-term plans there if you have any?

And then a final question for the Lancashire team. When you first announced the deal, I think you said there was potential for maybe writing some of your existing core business out of the Cathedral platform through Lloyds and therefore having some capital efficiencies through that. Just wondering If you have any updates and what potential benefit we could be looking out there? Thank you.

A - Unidentified Speaker

If we do, what's big loss, so reference points have to be in what we do. Our first year retarding was 2001, of which point we only wrote probably trade business largely North American aviation reinsurance. The show was going quite well till about September 10th. The end result was we ended up making a small profit as a business. The reason was, we are paranoid about exposures, we are very mindful about shareholders' money.

We bought our reinsurance cover to where we thought was sensible in that case to the improbable, 2005 is not the sole touch tone point for where people had unexpected results. I think in our business, you don't always buy the unexpected something's reasonably obvious and who would imagine the city that's four feet below sea level in the Gulf Coast have a flood. So there's always a chance that might happen. On Katrina, aggregated both our direct and reinsurance accounts, both of them reminded reinsurance cover. The rest of that year was lifted with some frequency as well. And we ended up making a nine point profit on the lowest prices.

We have undoubtedly sacrificed an upside margin for downside certainly and that's been the style. We've done if you want to look back what might we have done different if you had the benefit if normal is coming, which is not really the game we are in, we could have been more upside aggressive in certain years front in of the years. Historically, the rates go up massively nothing happens, which is why you get a little the cycle effects rapidly.

In terms of opportunities to grow again, we've been buying it on the about sort of market lead area, been market lead, John, better take this this to me.

A - John Hamblin {BIO 2175577 <GO>}

I mean, I think probably your question was about volumes. And top line is not something to be honest I mean bit in low, that are already we tend to focus on what the bottom line.

So yes, we do right in our large amount of stuff that is relatively small premium. We also write some of that, for us it is quite big ticket. So we would inevitably grab more time to find print submission earlier, it is dragging us, the rates are going up 5%, 6%, 7% and not going up for 100%.

So yes, if there was a market upturn, would it go up, yes, would it go up 50%, no, absolutely no. In terms of combined ratio, you mentioned earlier I think 2005, I don't remember all these, we used to different sort of investor group. You guys are about 60 years younger than our typical investor and you are not wearing clean suits and flat caps. They tend to ask to know combined ratio is. But in 2005, our combined ratio is about 90, the rest of the market was anything north of 150 I think. At the moment, you know 2013, as we know pretty good years, bit of activity in Europe and running at 61 at third quarter. Sorry, last year was 70 something. If you say, 13 is pretty good and 2005 not very good. The announce is probably somewhere in the middle. We are going be lot more published next year by the time which only see his weakness in time.

A - Unidentified Speaker

I think one thing to mention, which we are again very conscious of the frequency is in the industry far more of an issue than, first exposed more hardness if there is a single loss. The single loss ultimately you can count and you can say, it is almost how, you will not to be, only balance sheet or not that's a choice to fly with the business.

I think the enemy of range of this business is per se is frequency in understanding that and managing that. So that will become more of a challenge, I suspect going forward particularly for some of the braver people who produce more and more aggregate policies attach lower and lower now for lower market.

I just add to that there were couple of slides up there which I think quite interesting. If you check the DNF for incidence in 2005, 2006 I'm think obviously you had 240 lines maximum lines out there, today that's 20. Plus the fire power lunched as well now. When those opportunity comes through a decent size moment down to put those capacities up. So he is very opportunistic in surface to go lovely book of business there as well. I think this is last half of the questions, could you say on that.

On the -- they would have learned your lines into low, it's actually yes, there is something we're looking at on working with the guys at Cathedral to see how effectively we can build out 3010 which is the wholly owned syndic. Obviously everything will be subject to Lloyd's approval, when it happen overnight, it's not quite is Lancashire where we can do things as quickly as we do.

But we're looking primarily to begin with things like energy and terrorism within those lines as part of our existing book, that we could put quite neatly in syndic 3010 probably more exciting is the fact, is part of that business that we can expand and put into 3010 is a number.Whilst we talked about energy rights coming off a little bit.

There is a number of capacity risks out there. We've had three across our best this weight that made, we've got clients that we laid, need more capacity. So an additional line from 3010 is something that we can equal put their size very, very much on the agenda. We've been working on it with the guys over the last few weeks. And as we move into to the end of year and beginning of next year, we'll be seeing down Lloyd's to discuss those plans because obviously we do need approval from Lloyd's and franchise board et cetera.

Q - Unidentified Participant

And what kind of Capital benefit we are talking about?

A - Unidentified Speaker

Can you take that.

A - Elaine Whelan {BIO 17002364 <GO>}

The lines of business that are look there, there are going to have huge cap and call on them, so it's very efficient from that perspective for us.

A - Unidentified Speaker

Probably speaking, we underwrite about $1.60.

Q - Unidentified Participant

Hi, Nick Johnson from Numis. Question on Kinesis. I think this got relevant to the Lancashire property Cat book. Discussions with Kinesis investors, to what extent can the insurance market currently provide premium yield of required returns for those investors for given risk profile. Is it quite easy to structure transactions still or you are trying to see some price tension now? Please give us some thoughts on why yields might be going for IRS?

A - Unidentified Speaker

There is three main areas, is the Cat bond insurance link security, I would say has an average to full year with 1% to 2% in the market and it's paying. I mean the latest one is Kinesis Cat over the fall of 2.5, just on page seven, so that's expected profit about 5/93, so that's paying a six on average pre-fees. That seems to be where the Cat bond area is market where, Cat is well for selling big lumps of covers, big PNC companies as a similar levels where as real pressure and it's been touched on earlier is retrocessional industry loss warranty that I'd say after 2005, you had an average to full of sites then used to be our channels 25, so that was a 15 point profit over 75 funding. So that if like a 20-point an average return. That signed 10 point which today, it's probably paying 17, so that's a 7 over 83, so it's less than 10. That's becoming harder if you like for investors to saying we touched on what we're trying to do within Kinesis and that's really, if you like, it's more difficult to achieve where, we gaining momentum is because restructuring specific products for that.

But if -- why is saying, everybody took that alternative capital, all these investors are coming in and just taking a pure risk they want for the year. And their cost, I mean not for this side very well in. Their investor base has a lower cost of capital, it's more efficient and that's another way to look at. And that's the real big dynamic change going forward is that, this kind of coming in has a lower cost.

And that's going to take us to the number of different directions. And that's what kind of touched on the all is beginning. They're happy with a 5 return risk free on average.

Q - Nick Johnson {BIO 1774629 <GO>}

Would they be happy with a 3.5 or?

A - Unidentified Speaker

No, I don't think so.

I also mean some of the things that Rich and Alex talked about is when you look at some of these highlights, this money gets stuck a little bit when you have to put two risk, that is risk that you have to extend the life of the policy to 2 or 3 years, that capital might be there for a year or maybe a second that's why we're looking some of the things complete, but now some process.

Q - Angela Gu {BIO 18078706 <GO>}

Hi. it's Angela GU from UBS. I have a question for Lancashire's team. I think on the call, you said you're willing to go down the layers to remain relevant to some of your clients. So effectively in the past, Lancashire has been saying you are right, higher layer, low frequency, high severity layers that gives you low attritional loss ratio and you have a very good track record.

In the softer state of the market, I understand you have to -- be more flexible and go down the layers. But what does this mean for your combined ratio and retail and volatility going forward? Thank you.

A - Unidentified Speaker

Yeah, I mean, the market is changed considerably since raise of just see independent of two top layers and quite our employee. So part of that change is a reaction to the market is which we said on the call, if we are anywhere the top two layers, we probably won't get any businesses. So we designed heavily. So we are also into right through the program. But we are still waiting on that layers who is at top of the programs, so you shouldn't expect to see huge losses coming out small event.

We probably will pick a little bit more attrition, are the guests, we all are kind of reinsurance solutions for that. So overall proxy Cat book is change I think pull as well, is much more of a co-program, clients basically won't be survive through the program. We are offering some of the amounts here, we're offering statements, so we're trying to compare -- is only set highly improvised with the third party capital guys.

So the world has definitely changed, our approach is definitely changed that's been partly due to the market, partly due to a change of leadership in the leader office.

But you shouldn't go along the -- we're going to trying to accompany that, has exposure all over the world. So every single of them, attrition is not something we are used at Lancashire and with that we want to change the above. We have to be realistic about the market we are in and the way we have to try it and if we saw some overall strategy, which is when have a (inaudible) it just wouldn't happen in this market.

Yeah, to say, a losses again, Angela that we're losing the D&F attrition. If you look at all our losses of a large portion of our losses in Sandy, it was D&F. If you go to Thailand, if was all D&F, a large part of it out of Japan. It tend to be lower, only it will more miss. Also retro, our retro product has historically been a low level than our property Cat. I think it's important to say, when we took about through the program, we're rising much smaller lines on the bottom.

As Elaine alluded to earlier, we're not changing our loss, that because we still feel our portfolio will be managed probably.

Q - Angela Gu {BIO 18078706 <GO>}

So overall the portfolios still right similar level of attritional, it's just on U.S. property Cat, you are moving down the layer?

A - Unidentified Speaker

Not just from the U.S. property Cat, it depends on the clients instead. I mean we saw one in Denmark, there where we could have taken the authority to writer through the program. You know where we've written as well as, and it will depend on the clients. Nothing changes at Lancashire, underwriting comes first, we will look at the client, our motive doesn't, and how doesn't, and that's where we will make a decision and that's where we're careful.

Q - Angela Gu {BIO 18078706 <GO>}

Thank you.

Q - Unidentified Participant

(inaudible) On the Cathedral book, how do you manage the binding authority relationships, and just really checking on risk premises within there. And then are you able to discuss how, what the performance of the binding authorities has been against the rest of that portfolio?

A - Unidentified Speaker

Some.

Sorry, some say the underwriting, they cancel.

We had about 140 facilities before last few year, which we basically got on to or we want to get on to, and we're able to do that just because of broker we have. Performance wise, as John said, we made money on a gross basis every single year. It's without downward attritional in open market book of business, but it is still coming on a gross profit every single year.

And if you look at what we've been through, we've been through 2004, where you had about four hurricanes go through Florida. We've been through 2005 of Katrina. We've been through 2008 which had Ike. If you picks up the international New Zealand Cats, Thai, Japan, so you look for the tests we've had, and the tests have been pretty extreme. Our tests are pretty abnormal, it's actually 10 years. What's you other question?

Q - Unidentified Participant

Are you able to quantify the combined rate of that side of the...?

A - Unidentified Speaker

Our combined ratio.

All we able to quantify, yeah, I am sure we can work that out at some point. Yeah.

So we have... because we think that is very reasonable for us.

We will come back to you on that.

Q - Unidentified Participant

Can't you check on that 140 facilities, that's where you're comfortable right now, and that's relatively stable.

A - Unidentified Speaker

Yeah. We could grow it if the market was there. I think what we'd rather do is, we have 140 facilities. Now, let's say in New Zealand for instance where we have two facilities - two main facilities. What we'd rather do is give those to cover holders we have a long term relationship. We'd rather buy into their more. So, when they need more aggregate, we'd rather give them a lot more aggregate, then write another five. We'd frankly end up just competing against each other. And that's the philosophy really throughout the world. Okay.

Operator

Joanna.

A - Unidentified Speaker

The plan would be in different class business. It will definitely be short tail. One of the first conversations we had with our new colleagues was sorry, really doesn't understand casualty business I'm not sure I would lay -- notably so that's off the agenda. And -- we would only be interested in paper market rates the way we remunerated at the federal, of the same and if some ways come around everybody here already would have to be happy to share in the profits for that I think we should have to be happy with the other people he sat with. We would like to prudent out the other areas --.

Personally, I think Lancashire has changed personally I think over the last 10-15 years. The corner shop model if you will, in an existing three or four places realistically, I mean, it's something that is -- if ability to run their own show room prices perspective and underwrite some names are going business in--

Q - Joanna Parsons {BIO 1558226 <GO>}

Thank you. I'm Joanna Parsons from West house. There are two questions please from me, which are probably aimed at both Lancashire and Cathedral. Firstly, you're talking about expansion and growing the syndicate, and also the hopefully the ability to attract new underwriters. Could you talk a little bit more about that? Would that be in classes in at the moment, or would there be new classes? Because no one say...

A - Richard Brindle {BIO 1983776 <GO>}

I let Peter for me.

A - Unidentified Speaker

The plan would be in different class of business, and will it definitely be short tail. Look one of the first conversation we have with our new colleague -- I'm sorry we really don't understand casualty business. I must proudly say there is no delay, so that off the agenda. In Cathedral, we would only be interested in paper law, market leads, the way where we remain at Cathedral, it means all the underwriter see also same didn't apply. And so if somebody is come around, everybody say already we will have to be happy to sharing the profits with that guy any grade.

We will have to be happy with the other paper leads. We would like to broaden out, there are other areas is special space, we don't' do. Personally, I think loyalty change over the last 10 years, 15 years. Corner shop model, if you will, now and exist in three or four places, realistically only two. If something is craved by the better underwriters who have their own franchise and ability to run their show.

And also the lowest prices has now been detected by underwriter remain are going get businesses deals claims are paid over here and somebody else looks over it there. If you got some of these good enough to run their own shop, the decision within your compliance that in your business plan is great. Being so trader, it's really a value to those are paper and again, if all of a sudden, if an opportunity comes along without carrying capacity for it, all of a sudden when it's not there, so I know I have someone in house where we can leverage this opportunity, which can move my market position. It gives me an alternate by the Lancashire balance sheet and distributing it that way.

An opportunity to move our market position and these things happen very infrequently and you have to be there at the time. I think on Richard's account after 9/11, we're in a position where we could respond very well and the opportunity was multiple rates maybe not very quickly. We took what we could simply for our balance sheet and then shareholder at that time helps us put together to consulting, consulting took a week and by the time the consulting go back and approved at the other end.

The broker has been on appliance about half way in next half of this somewhere in middle. We don't want to that happened again. And but you got to have genuinely high quality people who would sit in the franchise. We'd like to interest them. I think you've got half a chance by the fact you know have this option not to carry some obligation to push top line around a huge accounts for ever through the cycle. You can be, you'll trader, you can run the market, but you have the opportunity once in a while when it happens, some actual value position.

It's be fair to say you had conversations before those conversations have re-emerged.

And I can't possibly comment at this moment.

Second part.

Q - Joanna Parsons {BIO 1558226 <GO>}

Okay, but to just to follow up on that. So basically, if you are expanding out teams at the moment, the likelihood it would be happening within the Lloyd's platform, okay.

And then the second question was, following on from that, in terms of the underwriting structure in the reporting lines, are you still going to running Cathedral and Lancashire underwriting through separately. I mean sure there'll be conversations. But I mean how do you report to each other?

A - Unidentified Speaker

Yes, because West 42% of this main syndicates still third party capital to which we have a responsibility as an agency.

Q - Joanna Parsons {BIO 1558226 <GO>}

So, you'll have your own capital that you will then decide how as well?

A - Unidentified Speaker

No, well Lancashire supplies the capital.

Q - Joanna Parsons {BIO 1558226 <GO>}

But, you will but then within, that within that you decide what you want to do?

A - Unidentified Speaker

I think you have to look at the...

In conversation with that.

The front end of it is, what's best for the brokers and the clients. And the relationships we have the Lancashire relationships and Lancashire classes are very different position with a very different bunch of guys to where else they have a big alliance, longer conversations about strategic accounts.

We have lots of book trade. We can setup a part of aggregates, we don't need every day to go back and re-map our aggregates if we are putting down small line every day. When things are in terms of how the things sits, there needs to be conversation across the middle to work how where we can optimize capital across the group, which with feature all of us and where the best opportunities is.

I think the joy of this for me is with this all three ways, we got some seriously interesting people, who being around the block a few times in the group. And if we can also extend and work out where is the best attack the problem and leverage the resource, pay of relationships we have. That's how we do it. But in terms, due you break up a winning formula for the sake of its corporate size actually not in my view.

Alex, do you want to comment?

A - Alex Maloney {BIO 16314494 <GO>}

Yes. And -- I mean I think there has been a few people on how things we are looking to fix size of their integration plans and stuff like that. And actually my view is Cathedral's good business, we got good franchise and that they are in. We didn't buy that company to try and completely change your whole, bring in new management to that vehicle. As Peter said, we're pretty joined up already regular meetings. But it's very much a high level investment for Lancashire, and then we'll add some of the specialty losses, the company do. But we're not going to integrate for the sake of it, got good relationship with these guys already, we are on the same page, we are owing things that makes sense and hopefully give us a better returns.

A - Unidentified Speaker

And on the underwriting side, John.

A - John Hamblin {BIO 2175577 <GO>}

As you know, we have underwriting conference call which, their businesses wouldn't fit into it, but we also have our risk return committee, which means on a full yearly basis, I think you've been to two or even three already regarding Cathedral and that is where the big macro decisions are made. That's where we look at the outlook, we look at reinsurance bond, and we're looking how this affects that, they are already part of that and that's a full yearly basis. So as far as that's considered, the lines on that as well. For capital reasons as our Chief Investment Officer so that's the macro way of managing it, and that's already up and running and we are in building that.

A - Unidentified Speaker

And Andrew.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Thanks. Andrew Broadfield from Barclays. And two questions, one on the reinsurance Cathedral, I think you have suggestion that you could probably buy little less and take net trust of those result. If I misinterpreted that, tell me. But my question on that is if that is what you're doing in terms of your reinsurance actually been pretty good fee from an ROE perspective I think by judging by, so that may new insurance in terms of cost, cost you $1.02 whatever worked out to be. So for you that's been a good trade so reducing the reinsurance spend would potentially be from an ROE perspective less profitable. So there was a question around.

A - Richard Brindle {BIO 1983776 <GO>}

Yeah. Okay. Can't say that now, that's an easy one, spending less doesn't mean you are getting less cover in this market, it's just costing you less above the same. So reducing reinsurance spend is on your function of the fact that is going down in price. Would -- we actually will probably buying more cover in some places because as my boss said, there is one born every minute, you just have to find him, you don't have to find him anymore, they are turning up every day with the sign full of capital looking to invest it and it would be really foolish if we didn't find way and failed to do that.

So the answer to your question is no, we won't change our buying habits. We will protect our core group of reinsurers in terms of putting them in place. But anyone who is interested in playing around the periphery, we're happy to do that. Any reason you spend less on reinsurance is because the prices are coming down. No, we wouldn't draw cover.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Okay. So this is from a risk perspective.

A - Unidentified Speaker

Risk perspective that would be the same or better?

Q - Andrew Broadfield {BIO 7273415 <GO>}

And then the second question is John, you mentioned the risk committees. I just want of think how and it's been very worst synergy as I thought but, I'm just trying to think how there is a capital, you talked about the capital benefit, you potential have to capitalize with it, sounds like Lloyd et cetera and that is potentially going to things to do with that. I'm just trying to think about how that -- how that can integrate other than just taking a lump outs and we got capitals fall for the group. From your perspective line and how you run that capital model now. Is it two bottles bolted together; is it one bottle looks like holistically when that is not that fungibility than you'd expect?

A - Elaine Whelan {BIO 17002364 <GO>}

Those excess capital in Cathedral because the way that they further operations for sure, and that was simply just to the excess, the rest of it is we look into see what business makes more sense in which platform and there is also diversification benefit when you put the two together, so that's where you get the benefits.

A - Peter Scales {BIO 2108933 <GO>}

See you will get that diversification benefit within your model, despite some fungability -- opportunity of fungability to strengthen.

Q - Andrew Broadfield {BIO 7273415 <GO>}

Yeah for sure.

A - Richard Brindle {BIO 1983776 <GO>}

Okay.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Thanks. It's Andrew Ritchie from Autonomous. A question for Darren. Just to clarify, you've identified 300 to 500 million of demand or funds looking to be deployed. I guess the reason I'm asking that is it's obviously a very different products and it must be quite different type of investor looking to do. It's quite complex products, and it doesn't strike me as a classic type of investor that's been playing in this base also now we go this given the complexity, the multi-year, which officially coupon on that is going to be very high?

A - Darren Redhead {BIO 17995744 <GO>}

Yeah. Regarding the investors, we spent six months with governments in state, but normally most of them are existing investors within the high cost Lancashire have very educated and is going to check on this, the leading three. Yeah, they were in China [ph] and I've really seeing the benefit multi-cost solution. And now if anything we think we probably coming back how much capital raise because what reason there is the pricing environment as much as the capital to be raised.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And how much is Lancashire to put in?

A - Unidentified Speaker

10%.

Q - Andrew Ritchie {BIO 18731996 <GO>}

10%. And second question, just for Cathedral, maybe it's a naive question, is there more disadvantage of having Syndicate 2010, not being fully aligned, obviously you've given the Lloyd's names. And I presume that there will be no, you never be able to buy those names out except participating on an annual auctions I guess, but?

A - Unidentified Speaker

It used to be rather we are so -- probably like 10-years ago, the way it's go strong by via names be 100% balance sheet. I was quite like Lloyd's names have come from that. So side of the balance sheet myself as a background. But they're variance in formal capsule, they primary say that primary profit commission, most importantly, primary 42% all my bills, which is extremely sustainable. And as the third-party capital model, I would argue that's better than most the returns you get for managing most of third-party funds.

They also have as generated to longevity on their side. They are supportive for the management, they spend enormous amounts of money so even try and access. So that syndicates to try on dividend at levels are fine completely, wouldn't possibly do and doesn't make any sense from an absolute commercial basis. But now very loyal supporters, they are statistically, when I was small boy started the market, strategically all the Lloyd's lines would've been dead within full years of my arriving but they are still here.

The only difference is the limited liability thing that meant all these guys have given the investments to the suns, daughters who are accessing limited companies or they are actually same centralize group business, now all the new Lloyd's names. And they're interested in mainline return profile. These guys have made, I think I'm slightly swinging here. I think I made of 60% on what we've done year-on-year. There haven't been the check for 11 years generically, and some of the better ones because, they're pushing out no assets, letter of credit on other assets it's just all return. The underlying cost capacity gone up enormously.

So, from that standpoint, the security of tenure and will they forgive you, if you lose money once. Sure, I will turn, they will be back. Will they run away as quick as if there is a bomb there perhaps not expected, not on the term sheet. I think they are more resilient, I think they had the 9/11 they've had various things, they are horribly wrong. Whereas one always says, very narrow investment product sales out now, if it's not as described on the street and is a principle that might be difficulty.

Well, unless my business on my balance sheet, ultimately some is yes, some is no. But I can't speak in advance, so as a genuine cool thing to have that, I think they are really good, just an opinion.

Hitching.

Hitching speaking?

Yeah.

Q - Chris Hitchings {BIO 2034501 <GO>}

Hi, Chris Hitchings, KBW. Actually follows on the my question. What is the purpose of having two separate syndicates, one earlier, I noticed that most of the discussion about where Lancashire business might be written in Cathedral, you've referred to 3010 rather than 2010. Is that simply because you prefer to keep it all or because their capital advantages in 3010 being more diversified? What's the strategy of the two syndicates going forward also likely to be?

A - Unidentified Speaker

We like to -- there's not even a few years down the line, you can get slightly with dividing the third-party businesses, so the name section becomes just batches policy. And if you put it together, you could get larger RBS, it's now the good stuff in the Lloyds' business planning. We're trying to be slightly more simplistic in terms of build out, the 3010 platform gives 100% access to balance sheet. As we see how the thing goes, we'll socket and say is the answer, how they actually trip, so I think if you put the business into 2010 immediately, it's easier in some ways but in other areas, it is less retrievable you're grounded exactly what you want to do.

So if you view 3010 as Lloyd's and of a billed out, it's not going to be some furious gathering together with unemployed Lloyds' underwriters, like a job, as serious people of that, you not spend the most. There are very few about in each market, which is slipping into, you can look at where those losses are. And if we are going to attract of those people, and if they are attractive by the corner shop way of living, over and above the power of Lancashire in third-party balance sheet, you can deploy something that seems less attractive to the guys have really good businesses. I think for clarity site, basically from 3010, in terms of how they have funded, they sits on the collateral corporate name, which is a blend of the two annualize. So the answer is capture what, it doesn't matter whichever way it will. So that's the way we intense life to start with, they somewhere down the line you might go two different structure like the basically one way effect this and that (inaudible).

Q - Unidentified Participant

Okay. Thank you.

A - Unidentified Speaker

Any other questions.

A - Richard Brindle {BIO 1983776 <GO>}

Thanks everyone for coming. Hope that was useful and see you in the next quarter earnings.