Q4 2017 Earnings Call

Company Participants

- David Andrew Horton, Chief Executive Officer & Executive Director
- Martin Lindsay Bride, Executive Director & Group Finance Director
- Neil Patrick Maidment, Executive Director & Chief Underwriting Officer

Other Participants

- Andrew J. Ritchie, Analyst
- Ben Cohen, Analyst
- Eamonn M. Flanagan, Analyst
- Edward Morris, Analyst
- Joanna T. Parsons, Analyst
- John A. Borgars, Analyst
- Kamran Hossain, Analyst
- Nick Johnson, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

David Andrew Horton {BIO 5697110 <GO>}

Good morning, everybody and welcome to our results presentation for 2017. You'll notice that we called our results presentation, moments of truth, and what we've been talking about for many years. At some point, we're going to get a year of relatively heavy claims that's actually happened in 2017. And I think it is a year where the insurance industry can really step up and pay claims well.

As you all know, we've invested heavily in our claims people over a number of years. And I thought it is an opportunity to differentiate ourselves in paying claims and not only in the catastrophe lines and we've now dealt with about 8,000 BBR claims and other parts of the claims area.

So let's look at the overall content, so I'm going to give an overview, and then I'm going to handover to Martin, he's going to go through all of the financials. Neil, our Chief Underwriting Officer will talk about underwriting and then I'll come back and talk briefly about our data and analytics, strategic initiative and then try and give an outlook for 2018.

So if we dive into the overall numbers with highlights of the numbers, not surprising that profit was down a bit over 2016, $175 million impact from catastrophe, still holds as we announced, I think in November last year. Return on equity, again driven down because of the catastrophe losses. Reasonable top-line growth which is good and we saw rate decreases on the portfolio of 1% below that reversed in the final quarter, especially in the shorter lines of property, insurance, and reinsurance, pleased with the combined ratio of 99%. I think that shows the active cycle management over the past few years of reducing our exposure in areas where pricing has come down to property insurance and reinsurance, but also some of the marine lines and showing growth in the specialty lines where we think rating environment has been better.

Prior year reserve releases, Martin will go through had a good contribution from Adrian's specialized team in 2017. The investment team had an excellent year delivering a return of 2.9% over the 2% in 2016. And then we continue with our dividend strategy of growing the base dividend between 5% and 10%. Of course, we'll have (00:02:03) special dividends back when we have super-normal profits. We'll have profits greater than the amount of capital we need for growth. This year, we think our growth opportunities in 2018, of course, the profits were lower. So therefore no special dividend in 2017.

What's actually happened in the business? A few business highlights, continued strong growth in our U.S. business. Our U.S. business grew by 12% year-on-year that's in (00:02:27) a number of lines, probably you guys had a good year. We continue to grow in the cyber, environmental, miscellaneous medical, so a good growth in our U.S. business, continue to add talented individuals in our offices out there, which have been fantastic.

While that's been going on, we've been trying to look at our international business and we have this unusual term of Beazley that internationally is everything outside the U.S., so specialty lines has been looking at growth outside the U.S. under the leadership of Gerard Bloom, getting our insurance company up and running in Dublin, have that licensing all done now and then the branch is approved by the local regulators in Spain, France, Germany and the UK. And almost everything is done. There are this (00:03:06) one or two operational aspects in one location still to do and then we'll have it fully up and running, which is great.

We acquired this Canadian business Creechurch, beginning of last year and that's worked really well adding underwriting talent to that and they performed exactly as we expected. And you can see the number of underwriters we've added in our international business for SL, in Europe, Canada, Latin America through Miami and Asia from Singapore.

Launched a small syndicate 5623 to look at writing facilities in the London market more efficiently than the following market (00:03:36) starting relatively small, half of the capital to support 563 is third-partly capital. And we put something down around our environmental, social and governance developments. Our people are most important to Beazley having high-quality people, retaining and developing them and when we do surveys of what our people are most important interested in. Diversity is obviously key and being a responsible business, not only charitable donations, but contributing to the wider society. And it was great this year to send eight people to Nepal (00:04:10) for a couple of weeks and that works very well from our people point of view.

And finally, we've got Dennis in the audience. It was his (00:04:19) last board meeting yesterday. And we'd also like to thank Dennis for his contribution over the past 6.5 years, 6 years as Chairman. He is a fantastic Chairman. It's been great and we are excited about finding David to succeed Dennis and hopefully take the company on in the same rates actually that Dennis has achieved. It'll be quite an achievement, because David needs to quadruple the share price over the next six years which may be more challenging becoming £10 billion company or whatever that number takes us to. But it'll be great if he manages it.

Looking at the graph of the numbers over the past five years, I think it's good top - on the top left, we're seeing revenues grow more quickly, so we're moving gently out of mid-single digit growth to 7% in 2017. We're hoping to hit 10% and beyond in 2018.

Combined ratio hopping (00:05:12) around the 90% mark and of course we've got a year, of catastrophe's 99% just like 2011 was 99%. Dividends per share good growth in the pink block, so the base dividend continues to grow, because we've had special dividends the past four years and we have been saying the special dividends are supposed to be special and this year there is no special dividend and return on equity, as I mentioned, impacted by the catastrophe losses, still pretty respectable at 9%.

This chart shows a total shareholder return and the overall target of many of us in the business to try and grow the net asset value by about 15% plus the risk-free rate per annum, which is where the top end of the grey triangle is and the diamond is showing what NAV growth we've managed to achieve over the past eight years. Because growing the NAV by more than 15% has had a great impact on the share price.

I'm going to hand it to Martin.

Martin Lindsay Bride {BIO 15458196 <GO>}

Thank you, Andrew. Good morning, everyone. I'm Martin Bride, the Group FD at Beazley and I'm just going to go through my habitual three subjects with you of what happened to investments, reserves, and capital.

First of all, one or two comments on the high-level KPIs. Net assets per share, they're down slightly in pence, they're pretty much flat in dollars. Shareholders have received €0.2007 (00:06:45) in dividends since this time last year, so we're very pleased with the fact that we've been able to distribute that level of dividend from the company and in a year where, as Andrew alluded to there's been quite a lot of claims activity. We nevertheless managed to maintain the NAV in dollar terms, which is the currency in which we carry our capital.

(00:07:08) investments, really very minor changes to the portfolio. Our strategy of having 80% to 85% of our assets in a core portfolio and 15% to 20% in a capital growth portfolio remains the same. They might be minor tweaks, but they were quite important tweaks as far as 2017 was concerned. And we achieved an excellent investment return. Our highest return in terms of dollars, because our asset base is much bigger than it was going back 10 years.

And you know, that return is partly a reflection of favorable markets, but also a reflection of some very good tactical asset management decisions taken by Stuart Simpson and his team. So we were very encouraged by that outcome.

Moving on to reserves, reserve releases are a very important part of the Beazley model. We stress the fact that we reserve prudently and therefore on average you should expect to see reserve releases coming from Beazley, that is exactly the case in 2017. So the overall reserve release is very stable in line with previous years. As you can see from the colors, it's come from quite different places than the previous two or three years. So on the short tail classes of business, they have been at the – they are taking the brunt of the rate reductions that have been occurring over the last few years. And there is mechanically less margin to release from those short tail classes. The counterweight to that, the specialty lines business with a very strong reserve release, it had a strong reserve release at the half year and that performance was repeated in the second half of the year, so the overall position very similar to previous years.

So in the next slide, we talk about what is going to happen next. This reserve margin, the margin in our reserves on the balance sheet is a lead indicator of the future. So as you can see, it's at the bottom end of our range. There's one or two mechanical technical things related to the catastrophes that contribute to that position, but it is at the lower end of our range. So as far as reserve releases going forward are concerned, there may be a slight reduction in 2018, but our forward-looking guidance as to what you should expect reserve release wise from Beazley is the same picture that you've seen in the past.

And in fact, if we just flip back a slide 2012 which was the year that followed the last significant set of catastrophe events you can see a similar feature. You've got a reduced reserve release, because essentially our short tail business is carrying much less margin forward into the following period.

So now capital management, so we continue to distribute significant amount of capital out of the business. Andrew talked about quadrupling the share price and hopefully David Roberts will do that. Hopefully, he will also continue to drive this slide forward as well. So the combination of the capital we've distributed from the company and the increased price of the shares has really generated a very strong position for the shareholders.

So in terms of our capital outlook, we are in a slightly better position than we guided at the half year vis-à-vis 2018. The reason for that is in capital setting at Lloyd's. You get credit for writing a larger and more profitable net cap book. So between the half year when I think we were guiding for 6% or 7% growth in capital over 2016 we actually have 2% and that is a benefit that we get from the fact that our business plan, our final business plan envisages more business in certain areas at better margins which Neil will talk about.

We have a surplus of 35% post our dividend compared to our corridor of 15% to 25%. The board will review that at the end of 2018. Very exciting year for us growth wise and depending on what happens claims wise, potentially even greater opportunities going forward. So the board at this stage is very comfortable to retain the 35% buffer. There's no change to our philosophy that if we have excess capital, we will distribute it to shareholders if we cannot see ways to deploy it in the business. But at this stage, we think it's right to continue with the 35% buffer.

Our guidance on how much our capital requirement is going to increase remains unchanged, so mid-single digit. And again, that's also though a function of exactly what market conditions, what business plans we ultimately end up framing, but a strong position that certainly allows us to grow the company in the short-term.

Neil Patrick Maidment {BIO 5232207 <GO>}

Thank you, Martin, and good morning, ladies and gentlemen. And so, in the next part of the presentation, I'm just going to look at our underwriting performance and that remains the key to the results that we're announcing today. So if I start with the highlights from 2017, it was a year dominated by a high incidence of natural disasters. We're pleased therefore to be able to report an underwriting profit combined ratio of 99% that compares to prior of 89% and our average combined ratio, which is 90%. So in achieving this positive outcome, I think there are two things to point out. One is our balanced business model, specialty lines, which is 50% of our business with the exception of one or two notifications in our environmental team with those exceptions specialty lines is largely unaffected by these catastrophe events.

Second thing to point out is our active cycle management, so in 2013 our catastrophe risk budget was $575 million in 2017 that have reduced to $370 million. And one area of our business in particular benefited from that active cycle management was our reinsurance division which despite the fact, it was one-off if not, the most costly year on record for natural disasters achieved a breakeven outcome.

We're also pleased with that growth of 7% and there were a number of drivers for that. But the two most significant were continued developments of specialty lines which grew by 11% and of our business onshore in the U.S. which grew a further 12% to $880 million.

And the result, as Andrew said was achieved against the background of a more competitive market. Rates fell 1% in our portfolio. Overall, I think that we continue to benefit from our ability to reach an increasing volume of business in the more stable SME and mid-market in the U.S. and that offsets or balanced the more competitive conditions that we experienced for most of the – in the large risk wholesale business written here in London.

So if I turn to claims, the year as I say was dominated by the cats, the hurricanes Harvey, Irma and Maria. In total those are expected to cost the industry $100 billion as well as the California brushfires. And we continue to anticipate that our losses net of reinsurance will fall within a range of $200 million to $300 million as we reported in November. So no change in our overall loss estimates or generally on the claims side as Martin has just said, we were pleased that the reserves for prior liabilities continue to develop positively and our consistent approach to reserving means that we have finished the year with the reserve over actuarial within our target range of 5% to 10%, albeit right on the low boundary of that range despite the effects of catastrophes.

So if we look at the numbers in a little bit more depth, growth of 7% in gross written premium and net written premium. So obviously our reinsurance costs were growing proportionate to our top-line unpacking the combined ratio, the expense ratio remained stable at 41% as we continue to invest into the business to drive that growth at the same rate that that premium was growing.

Claims ratio up 10 points to 58%, all of that increase was driven by the catastrophes. Pricing there at the bottom, you can see that minus 1% continued to fall although it moderated from the minus 2% we gave our the year before.

And if we turn to this side, it shows the risk adjusted pricing change on our five divisions going back to 2008. And the first thing to note on this slide is the dotted red line. So that shows the total, the composite of all of our rate changes. And I think it's been relatively consistent across this period. And of course, that shows the benefit of operating a diversified portfolio.

On the right-hand side of the chart, you can see the effects we've experienced in 2017. So three of our divisions experienced more competitive rating conditions to a greater or lesser degree reinsurance which is the darker blue line, gave up 2%. Marine, which is the light blue line at the bottom gave up 3% and PAC, Political, Accident and Contingency gave up 4%.

Balancing all of that, our two largest divisions, specialty lines and property actually had flat trading conditions through 2017 and the latter experienced some post (00:18:13) event rate increases in the fourth quarter following the natural disasters.

So if we turn to the outlook for this year, broadly we're expecting those moderately more positive rating trends to continue as we go through 2018. At the 1st of January renewals, we've seen property insurance rates increased by 6% and property reinsurance rates increased by the same number as the market has recalibrated its pricing for natural catastrophe exposures.

Against the background of low-single digit growth in the real economies of the developed world in recent years, we've been targeting growth of 5% to 10%. The 2018 business plan is targeting growth right at the top end of that range. Quarter the plan is continuation of what we've been working on in 2017. So it's further growth in specialty lines, driven by three things. We see continued opportunity for growth onshore in the U.S. The combination of a more focused distribution strategy and the initiative to put more of our product through our office footprint continues to drive opportunity across the product range and specialty lines. But if I was going to point to two things, we see particularly strong opportunities in healthcare and environmental.

On top of that, cyber continues to grow strongly. That's both within our core Beazley Breach Response product which we sell into the SME and mid-market. But it's also in the larger space where we've launched this joint venture with Munich Re through Vector (00:19:59) product. And on top of that, we're starting to see increased demand outside of America as countries around the world adopt stronger regulations around privacy.

Of course, we have GDPR in the European Union coming into effect in the second quarter of this year. And staying outside of America, as Andrew said, we spent 2017 putting in place the operating platform for our specialty lines, international initiative under Gerard Bloom and we are looking forward to the first full year of operation of that business this year.

On top of all of that, now of course we have some stronger writing conditions in our short tail lines of business and that creates opportunities both in property and reinsurance. And against that background, we're going to increase our catastrophe risk budget to take advantage of those better market conditions. We do benefit from operating a diversified portfolio and that does allow us to exercise cycle management, which means we push forward the areas with better margins and we pulled back and are disciplined in areas where pricing is under pressure.

If I think about the last 10 years, in the first part of the period, following the credit crunch in 2008, we were pulling back in specialty lines against the background of the recession. A recession is not a strong environment to underwrite specialty lines. And at the same time, we were pushing forward in our catastrophe businesses. In the second half of the period, broadly we've been doing the reverse.

2018, therefore is the first year for many years, where we've had the opportunity to grow profitably on both sides of the business.

So with those thoughts, for the prospects for 2018, let me hand back you now to Andrew.

David Andrew Horton {BIO 5697110 <GO>}

Great. Thanks, Neil. So I wanted to talk briefly about data analytics strategic initiative. I think we talked about this about a year ago and we've made good progress on it. We are very fortunate and Ian, our Chief Operating Officer having someone who actually understands how to make business placing more efficient and more effective and we've done a number of things. We've highlighted them here.

We're also supporting the Lloyd's initiative. Lloyd's has got some press over the London market initiative to try and make the market more efficient and Lloyd's got some press, I think towards the end of last week regarding the placement platform, placing business electronically into the market. We at Beazley have also been doing things. And Beazley Insight is a fantastic system looking at complete customer view of how we trade with that customer and automating it and looking at external data to enhance our underwriting decisions with our customers.

Robotics, we now have some robots. I like the live in inverted commas. We have some robots within the company, who are doing repetitive processes which is great. And then, there is Natural Language Processing. It would be great if broker sent everything to us in a perfect submission with all the data on an e-trading platform that we would like them to use, but unfortunately they won't do that. They send us emails in and if we can actually read from the email the information we actually want, we have to respond to them more quickly and the whole aim of this is making our internal processes and our responsiveness even better and making our underwriting decisions better.

One of the great things Ian has done (00:23:31) changed the structure of his own organization to ensure he's got people who are focusing on innovation and change as well as ensuring the organization as it currently stands is operating well.

The picture on the bottom right is how the management team are going to look in five years' time. I've already bought myself a T-shirt with a rocket on and I already have that hairstyle, so I'm quite close to being that guy in the bottom right-hand corner.

Onto the outlook, Neil has covered a fair chunk of the outlook. I think it's (00:24:03) going to be an exciting year 2018. We're seeing rates rise for the first time as we mentioned in the short tail lines. So it is an opportunity to grow all five divisions in terms of top-line this year, which we have not done for many years. So that's going to be exciting. We have silo business continue to grow. We have the international opportunities. The U.S. is still performing really well for us. We continue to attract and retain good people, which is core to what we do and want to continue to invest and we have the data and analytics strategic initiative. So I think 2018, we start the year with a lot of optimism. It should be a very good year for the company.

And on that note, we're happy to take up any questions.

Q&A

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. I'm Ben Cohen at Investec. I had a couple of questions. Firstly, on the reserve release in specialty, the sort of the split between, if you like, the benefit from the cyber performance and then the prior years of economic benefits coming through. Could you give us some sense of that to maybe allow us to try and think about how that will work going forward? And secondly, as part of that, does that development on cyber, is that going to have an impact as to how you set initial loss picks over the next couple of years for the cyber product?

And my second, I suppose broad question in terms of the growth opportunities in property and reinsurance, could you give some sense in terms of how you expect kind of new business and pricing to split between the two in terms of the growth that you've done and if not, looking forward then maybe just from the January renewals? Thanks.

A - David Andrew Horton {BIO 5697110 <GO>}

(00:25:53)

A - Martin Lindsay Bride {BIO 15458196 <GO>}

Yeah. So if you look in the table in the report and accounts, you'll see that the reserve release on the 2015 year of account from specialty lines was $30 million, that's purely cyber. And then, there was $91 million on 2014 and prior. And there's going to be another $10 million potentially of cyber in that figure. So potentially a third of the specialty lines reserve release roughly came from cyber, Ben. In terms of opening loss picks, there is no intention to change them. I think we've quite clear that we see potential for systemic events in the cyber business and the fact you're getting strong reserve releases is, one of the reasons for that is we haven't had any of those events yet.

So I don't think moving loss picks down if that's what direction you were thinking we might go is something that we - who really got in our minds. I think we feel the loss picks are appropriate. And as we said in the report and accounts, perhaps compared to history, specialty lines reserve releases will show a little bit more variability going forward, because the cyber account will have good years and less good years and that will flow through in our reserve releases as we go forward. But we certainly think that the initial reserves we're setting on cyber fit within our overall strategy of being conservative to start with.

A - David Andrew Horton {BIO 5697110 <GO>}

We do open cyber (00:27:16) lower than the rest of specialty lines.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

In terms of the short tail opportunities, the gross is in line with rate. But we do also intend to grow our catastrophe risk budget and we'll do that by buying slightly less reinsurance. So we will be growing our net exposure against the background of better rates.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, it's Kamran Hossain from RBC. Couple of questions back on cyber. Would it be possible just to talk through your claims experience in 2017 versus 2016? Obviously, there is a lot of kind of noise in the middle of the year about some margin (00:28:09) losses. Secondly, in terms of, I guess, the profitability of cyber. It sounds like these things have developed particularly well, would you consider keeping more of the business in-house rather than seeing more of it (00:28:23) to the reinsurance market? And in terms of kind of the dollar amounts of cyber reserves, do you have that number at hand (00:28:32)?

A - David Andrew Horton {BIO 5697110 <GO>}

Sure. (00:28:33).

A - Martin Lindsay Bride {BIO 15458196 <GO>}

We calculate the third one (00:28:33).

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Exactly. So I think broadly the claims experience has been consistent 2017 over 2016. There are changes as the products and the risk itself continues to evolve in terms of what are the drivers of claims. So over the last 18 months, we have seen increasing amount of ransomware type events. So the drivers of experience change, but the overall trend, I think is in line with the growth of the business from an attritional point of view. What we haven't experienced is the materialization of the catastrophe events that we planned for and for which we're buying that reinsurance.

In terms of the reinsurance, most of what we're buying is excess of loss to protect for those catastrophic events. And our intention would be to continue to do that, because our board has set a risk budget for those extreme events and we need to buy reinsurance to manage within that risk budget.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

I think on the last part, we have updated in the appendix of the presentation. We have updated the cyber premium figures for you, so you should be able to model. As Neil has said, we open cyber the same loss ratios are the short tail businesses. So it is around between 55 and 60 (00:30:06). So you should be able to build a model of what we think are – cyber reserves are from that.

Q - David Andrew Horton {BIO 5697110 <GO>}

Yeah, just three questions on cat, please. Would it be possible to breakdown the HEM (00:30:32) losses from last year on a gross and net basis? Just to see how your reinsurance program worked to absorb the gross part of the book? Also, on your reserves again the 5% margin that is sort of left at the end of the year. What in there is the actual cap margin that is left and that sort of feeds through into next year, please?

And finally, on property binder, just maybe comment on how the property binder book behaved in the U.S. where the losses in that portfolio were in line with expectations and so perhaps unexpectedly high? Thanks.

A - Neil Patrick Maidment {BIO 5232207 <GO>}

So if I start with that, the binding authority book, I think has performed reasonably well. Within our property division, the larger driver of loss activity was our open market, the large risk business. The binding authority book under Paul Bromley's management we've generally avoided writing pure catastrophe-driven binders, both through the Caribbean and onshore in the U.S. we write some, but that strategy has limited the impact in the binding authority, part of the account. In terms of utilized cat margin, we've used it. So we're not carrying a lot into 2018 which accounts for Martin's comment, when one thinks about the prospective reserve releases in 2018.

We're unlikely to see a great deal from the property and treaty divisions, because they've used their 2017 cat margins this year, because we've actually experienced some real life cat losses. And in terms of a breakdown, I don't think we're publishing a break down, but I'm happy to talk to about how our gross net performance worked out.

Broadly speaking, we experienced the number of – a series of losses that were within our retention for our property insurance division, but for our reinsurance division that uses a combination of proportional reinsurance and aggregate reinsurance. They got more benefit from their reinsurance program this year.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. First question is on cyber, you re-launched the data for each product now covering first (00:33:02) I wonder if you could provide a little bit color how you control your risk and what you're covering (00:33:08) there rate manufacturing? So is this large manufacturing? Is it mid-sized manufacturing?

Secondly, last year we talked about the, political, accident and contingency business, it's back to profits now, is this a profit level you think is what can be achievable or is there more room to improve in this segment? And thirdly, commissions are up. Is this structural or is it a one-off?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Okay.

A - David Andrew Horton {BIO 5697110 <GO>}

You start (00:33:35) with the first?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Yeah. I was going to work in reverse again, because this is sort of easier. I think the last point is mix and – so, there has been some upward pressure, I would say, in soft trading conditions on brokerage, but largely it's the effect of mix in our portfolio. In terms of the political, accident, and contingency division, the plan, I think is for to return to profitability. Christian Tolle has brought together the Accident and former PCG businesses this year. We discontinued our operations in Australia, which were a drag on the results. And I think the prospects for that business sort of – are positive and in-line with the margin that we are anticipating from the rest of the business going forward.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

(00:34:36) comes to get back from all the 2016, 2015 levels. So it's at a low-ish level in 2017.

A - Neil Patrick Maidment {BIO 5232207 <GO>}

And in terms of the cyber question, we've very positive about the development prospects for the products, as the risk continues to develop. So I would say the big driver for all the purchases of our cyber product to-date has been a data breach. So the people who bought cyber insurance so far being natural customers of data breach insurance, because they are a hospital or a retail or school has a lot of personally identifiable information.

Clearly, digital risk is a broader subject than that. And our team are evolving the product to be more relevant to the people who haven't bought cyber insurance yet. And that would include manufacturers for whom they have clearly have some personal identifiable information, but it maybe that I'm more concerned about a physical damage loss and business interruption consequent on that loss.

We haven't I think seen the materialization of a loss of physical damage events. There are a number that have occurred. Stocksnet (00:36:00) would be an example, the Ukrainian utilities would be an example. There was a fire in a factory in Germany, but they're quite limited. But clearly, the potential does exist and with working in particular in the large risk space with the co-venture with Munich Re to bring together what they know about physical damage and business interruption with what we know about data breach and other elements of cyber to design and sell a relevant product to those types of customers.

Q - Thomas Seidl {BIO 17755912 <GO>}

And that limits the 10 million first party (00:36:41)?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Then that limit is $10 million yeah.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Thanks. It's Andrew Ritchie from Autonomous. A lot of questions. Well, I'll try to keep them short. Just so I don't pester Martin next time, there is an event, just remind us on the reinsurance ranges, the net – I think you mentioned net retention is $10 million on cyber, but for the specialty (00:37:06) arrangements are on the reinsurance. And has that changed? Specialty line's pricing, you didn't really talk, you talked about property and reinsurance (00:37:15) what's happening in specialty lines pricing? My sense is it's going (00:37:20) a little bit, but because the claims environment slightly trickier. Onshore U.S., onshore Europe, I can't find anywhere what the actual premium number is at the end of the year for those divisions, it's quite hard to extricate. So this onshore Europe, I guess, is very small still, but yeah...

A - David Andrew Horton {BIO 5697110 <GO>}

Yes, we haven't got that, I mean, the U.S. number I think we were in the $778 million, which is quoted in my CEO statement.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Apologies. (00:37:48)

A - David Andrew Horton {BIO 5697110 <GO>}

(00:37:49) appendix, there is a full amount, a full amount of U.S. premium.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

I guess, on onshore Europe, just give us a sense of the timing as to when we start to see - your office is in place, but when you start see meaningful contribution in relation to that, what's the early reception being around GDPR and potential increase penetration of cyber? Thanks.

A - Neil Patrick Maidment {BIO 5232207 <GO>}

So the retention on the catastrophe program for specialized is $30 million. Specialized pricing overall is flat. And...

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

It is flat now versus minus one (00:38:26) at the half year, I guess was it?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Yeah.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Yeah.

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Yeah. I think specialized itself is quite a diversified business. So there are areas of the specialized world, management liability in the U.S. springs to mind is one where there's been an increasing claim trend widely discussed publicly and that's putting some upward (00:38:52) pressure on primary D&A (00:38:55) rates. There are areas like international professional indemnity where most activities is likely to lead to some re-pricing as well, but then that will be offset by other areas in the portfolio that are performing well, where pricing might be under pressure, hence overall, broadly neutral pricing.

And in terms of GDPR, I think our view on GDPR is regulation will be at the back - or insurance will be at the backend of people's responses to that regulation. And so, I don't think we're necessarily expecting the market and demand for insurance for cyber products dramatically escalate in the second quarter instantly with the impact of that regulation. But what it does do is, raise at board level a very heightened interest in cyber resilience and cybersecurity and I think inevitably will lead to increased demand for cyber products in Europe.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

I think as far as onshore premiums generally are concerned, especially on the international business, it's five-year plan, I mean, we would like to grow premiums from where they currently are by some $400 million, $500 million. I assume the UK is not part of onshore Europe to your question. I would say, the UK will definitely be an important part of that growth and then onshore Europe would also be an important part. So perhaps a couple of hundred million dollars, but we talked about GDPR, I think exactly where specialty lines international premium growth come from is going to be dependent on things like how markets such as cyber develop outside of the United States, so but certainly a meaningful contribution over the next five years hopefully.

Q - Eamonn M. Flanagan {BIO 14018002 <GO>}

It's Eamonn Flanagan at Shore Capital. Two questions, please. And you talk about the loss – the cat loss in 2017 of between $200 million and $300 million and so what figure – was it within the figures? And what swing factors should we watch during this year to view whether that figure is too low or too high? And then, if you do have a minute just what your thoughts and prospects of the new syndicate in 5623, the scale of the appetite, et cetera?

A - David Andrew Horton {BIO 5697110 <GO>}

(00:41:35) first question, because we have to put in a number that's the P&L, so the P&L impact (00:41:40) $175 million, so I'm guessing...

(00:41:43)

(00:41:45) range. So we're using the middle of the range for the $175 million. It will be interesting to see, I mean, I think if we have a material movement away from it, you'll have to see prior reserve releases come through, if it's down. So therefore Martin said about reserve releases. He was actually seeing on the chart and if it's materially the other way you will see prior reserve top-ups. So you will actually see it coming through their....

Q - Eamonn M. Flanagan {BIO 14018002 <GO>}

Yeah. Sorry, I'm not from the industry. You know what is that the $100 million...

A - David Andrew Horton {BIO 5697110 <GO>}

(00:42:10).

Q - Eamonn M. Flanagan {BIO 14018002 <GO>}

Is it a specific event, Maria or...

A - David Andrew Horton {BIO 5697110 <GO>}

It's our analysis about loss there as opposed to...

A - Neil Patrick Maidment {BIO 5232207 <GO>}

Yeah. Sorry, just reiterate the question.

Q - Eamonn M. Flanagan {BIO 14018002 <GO>}

Yeah. On just one word the sensitivity on that number is, is it one particular event? Is it Maria or the wildfires or is it the whole...

A - Neil Patrick Maidment {BIO 5232207 <GO>}

No. I mean, we have exposure to all of the events. And I still think it's relatively early to conclude which is why I was offering the range, but our reserve is based on the midpoint of the range.

A - David Andrew Horton {BIO 5697110 <GO>}

Sorry, question (00:42:45) was...

Q - Eamonn M. Flanagan {BIO 14018002 <GO>}

The likely prospects scale, size?

A - David Andrew Horton {BIO 5697110 <GO>}

So it started small, so it's got a €30 million capacity to write premiums this year. It's seeing whether it works, Eamonn, so we're trying to write facilities more cheaply than the following market currently does, having a lower cost of capital building a sort of smart cracker type portfolio, trying to take cost out of the whole placement of insurance. So let's see whether it works. And if it works, I think, you can scale up to €0.5 billion and beyond because if it works, there will be more and more facilities and it works and if it doesn't work, it will scale down to nothing.

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

Joanna Parsons from Stockdale. Couple of questions, if I may. You talk about looking for positive momentum through 2018 albeit for the relatively cautious overtone, but could you give us a feel for what you think might happen (00:43:48) renewals? You talked about the IT investment which I know is an ongoing thing. But I felt reading the release that perhaps you were suggesting that was going to be a kick up in that investment. Is that correct and will that have any impact on the expense ratio? And obviously, there's a lot to talk about ILS and companies having their own ILS arm. What's Beazley's long-term view on this?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

So (00:44:31) cat rights to January, as I said we were experiencing plus 6. Our plan assumed plus 10 (00:44:42). So I think our expectation is the year is developing in line broadly with our planning assumption quite a lot of loss affected business comes up in the second quarter. So I mean, we're within tolerance with what we were anticipating within the plan. On ILS, I think previously we've looked at that as whether we could develop something that was complementary to our traditional reinsurance play. I think with the development of the supportive regulations here in the London market we're revisiting that analysis.

A - David Andrew Horton {BIO 5697110 <GO>}

I think on IT investments, as we see things today, no, there's no investments we have in mind that would sort of trouble the score, so to speak, in terms of our expense ratio. That having been said, if we identified something that we felt it was important to invest significantly and quickly. Then, I'm sure the board would be open to doing that, but as we see things today. Yes, there is investment going in there, but it's not going to make a significant change to the – drive a significant change in expense ratio.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

(00:46:05) we've already invested in IT over the number of years. We are expecting that to hopefully reduce expense ratio. So thanks (00:46:13).

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

(00:46:17) expense ratio.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

Exactly.

A - David Andrew Horton {BIO 5697110 <GO>}

We should say, we did actually raise the IT budget, $5 million (00:46:25) last year and (00:46:25) expense ratios, so we have managed to find savings elsewhere operationally.

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

So done by £5 million (00:46:33).

Q - Nick Johnson {BIO 1774629 <GO>}

Hi, there, it's Nick Johnson from Numis. Question on the growth outlook for double-digit phraseology. You talk about potential secondary impact of the cat losses on unrated lines such as marine and possibly large tickets, U.S. specialty. Just wanting to what extent those sorts of developments might be factored into the double-digit guidance. So whether those would be incremental positives, if they happen?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

The double-digit reference goes back to what I was saying in my presentation, Nick. We'd been planning for 5% to 10% for several years. We've been achieving that recently. Thanks to the opportunities that we have to grow specialty lines on top of that. Now we have the short tail rates strengthening. So if we just add that on top of the specialty lines, that's why we got a business plan of 10% if the market continues to evolve more positively then that would be some top side, but our plan is at the top-end of that 5% to 10% range.

Q - David Andrew Horton {BIO 5697110 <GO>}

(00:47:50) UBS. Quick one on the capital intensity of growth. How should we think about that for 2018? You've given us the guidance, but I know, it moves around. I mean, I guess historically last few years specialty has grown (00:48:05) next year should be more of a mixed picture for growth, well spread, but a bit more cat in that potentially, so same or down?

Yeah. So I do think the right model is to suppose premiums and capital grow in line with each other. I think you would break out of that if there are further catastrophes and there's really a big push into catastrophe business then we would start to get greater by those vacation benefits and that rule might be broken. But I think premiums and capital growing together is the right assumption for you guys to have currently.

Thanks.

Wendy's (00:48:47) Ed had his hand up for like, 20 minutes.

Q - Edward Morris {BIO 16274236 <GO>}

Thanks. I think I sat on the wrong side of the room. Ed Morris from JPMorgan, a couple questions. First is on investments. And (00:49:02) us some helpful guidance on what do you think the investment return might be looking forward, based on where rates are today. Also with the uptick in premium growth expectations, can you just give us an idea of how you expect the investment portfolio to grow over time?

And second question, just briefly on reserves, you mentioned 2012 was a good indication of what reserve releases might look like in a year where you enter with less cat margin in the short tail classes and given that was slightly below where we were in 2012 in terms of being at 5% versus sort of 6%, 7%, should there be an expectation that it will be any lower or do you think that that is good benchmark?

A - David Andrew Horton {BIO 5697110 <GO>}

Yeah. So as far as investments are concerned, we are guiding for 2% investment yield this year. This year is a sort of transitional year, so you've got potentially actually higher rates on an ongoing basis from the core portfolio of the map, but then you've got to traverse the period where rates are going up and creating mass market losses. So I think our guidance remains 2% for this year, but potentially higher than that. If we stabilize with the rate curve, U.S. rate curve, that's a bit higher than the current one.

As far as the investment portfolio is concerned in terms of its size, I mean, again, it should grow with the top-line. As Neil said, we're growing all businesses. So I would expect the balance sheet to grow at a similar right to the top-line. Then as far as the reserve releases is concerned, I mean, I think the way you might want to think about modeling that is 1% of that margin is $25 million. So if the margin is going to go up from 5% to 7%, for example and I'm not saying that's what it's going to do, but were it to do that, then reserve releases will be towards $50 million lower than normal is one way you could think about it.

Q - John A. Borgars {BIO 15015364 <GO>}

John Borgars, Equity Development. I had two questions. One on reinsurance, if you add back the reserve releases to reinsurance claim, only comes at 114% (00:51:27) which is far lower than some of the U.S. reinsurance. Can I ask some guidance as to where your geographical spread of (00:51:42) reinsurance is, which sounds more intelligent the average U.S. insurer, but we like it (00:51:48) to be?

The other one is very, a small detail. The unpaid premiums (00:51:55) has gone up to 20 weeks, is that a reflection of them making up for not getting the commission rate increases to try to squeeze more profits or is it related to revising investment returns?

A - Neil Patrick Maidment {BIO 5232207 <GO>}

You take the second one and I'll take the (00:52:16) first one. The reinsurance portfolio is broadly 50/50, so 50% U.S., 50% non-U.S. I think what's really helped the performance this year is that active cycle management that I was talking about. So as rights have reduced in catastrophe reinsurance in recent years, we've maintained our position in the market, but bought an ever (00:52:44) increasing amount of reinsurance and that has meant that we have much less at risk this year than we did four years ago.

Q - John A. Borgars {BIO 15015364 <GO>}

Yeah. (00:52:57) growth.

A - David Andrew Horton {BIO 5697110 <GO>}

Yeah.

A - Martin Lindsay Bride {BIO 15458196 <GO>}

There have been no changes in sort of terms of trade and payment by (00:53:04), so that's stable in terms of why our premiums receivable might have gone up. I mean there might be a couple of effects such as reinstatement, premiums due. And we did right quite a lot of business in the last couple of months of the year off the back of the hardening short-term markets, but there's really been no change in payment terms or the efficacy of payment by brokers.

A - David Andrew Horton {BIO 5697110 <GO>}

Great, anything else? Brilliant, thank you for coming this morning. It's pood to see you all.