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Q1 2018 Earnings Call

Company Participants

- Alexander Maloney, Group Chief Executive Officer & Executive Director
- Darren Redhead, Chief Executive Officer, Kinesis Capital Management
- Denise O'Donoghue, Group Head-Investments & Treasury
- Elaine Whelan, Group Chief Financial Officer and Chief Executive Officer, Lancashire Insurance Company Limited
- Paul Gregory, Group Chief Underwriting Officer and Chief Executive Officer, Lancashire Insurance Company (UK) Limited

Other Participants

- Ben Cohen, Analyst
- Darius Satkauskas, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Lancashire First Quarter 2018 Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Alex Maloney, Group Chief Executive Officer. Please go ahead, sir.

Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you, everyone. Thank you for calling in for our Q1 call. I'm delighted with our first quarter results. Our underwriting portfolio has seen little loss activity in the quarter coupled with strong reserve releases mainly from the 2016 excellent year. We have top line growth driven by the improved underwriting environment. And lastly, our hedging strategy has mitigated our mark-to-market investment loss as interest rates increase. We are, therefore, satisfied the strategic decisions we took coming into this year were the correct ones, and the insurance markets and investment markets are where we thought they would be.

It's pleasing to see top line growth, which is partly driven by positive rate movements and partly driven by new business across the majority of our portfolio. Even where rates are not positive, such as terrorism, we have seen more rating discipline in the terrorism market than we have seen in many years.

We have commented before that we hope to achieve more rates across our underwriting portfolio. But as others have also commented, the underwriting environment is not currently there to push for more rates. But our portfolio is generally more profitable than the market average, so any positive change is accretive and margins are improving.

We see daily evidence of carriers taking corrective action to improve the profitability of their underwriting portfolios. Not a day goes by where a headline doesn't pop up with another carrier closing another product line. These are small signs of the changing underwriting environment. We are yet to witness the material rate improvements from this action, but this is another clear indicator to us that we are finally off the bottom of the market. This very much feels like the year 2000 all over again.

We will continue to demonstrate the underwriting and capital discipline that we've always demonstrated. We are witnessing for the first time in years pretty much everything pulling in the right direction. We will adjust quickly if the current direction of travel accelerates, which we believe could happen if we see further loss activity or loss (00:02:43) from the 2017 events. It's a finely balanced market that just has to improve, is simply has to.

So, in summary, we're in excellent shape as a business, probably the best we have been in years. We have maintained our underwriting discipline during a prolonged soft market. We have no need to review any product lines. And we have the flexibility of our three underwriting platforms to navigate through the next stage of the cycle. We have a supportive, long-term shareholder base, which we thank their patience and one which we believe we will be able to provide the risk adjusted return they require.

I will now pass over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. Following the loss frequency and severity over the last three quarters, the first quarter of 2018 has been very benign. Those losses that have occurred during the quarter such as U.S. and European winter storms are relatively minor in nature and as such have a limited impact on our underwriting results. Given this loss environment, the group has been able to generate a respectable combined ratio of 65.2% for the quarter.

As we highlighted last quarter, we anticipated the majority of the group's portfolio to be exposed to positive rate movement and this has transpired. Rate movements were in line with our previously communicated expectations. Catastrophe exposed lines such as retro, property cat and property D&F, all saw rates moving positively. In addition to this, the energy market is also seeing rate rises, and other lines such as terrorism have flattened.

The group's overall portfolio saw a rate improvement of approximately 5% year-on-year. Rate improvements is certainly a positive for us as a group, especially given that they are focused in the areas in which we specialize. In addition to this, there are other areas of optimism.

In the property catastrophe classes, there were some small pockets of opportunity to write the (00:04:41) new business with both existing and new clients. Some of this (00:04:45) and others were opportunities to expand relationships at slightly improved rates.

The energy market is also showing the first green shoots of recovery. With a more robust oil price, our clients are cautiously optimistic about the future, and we should start to see demand slowly coming back into the energy market should the oil price remain close to its current level. As a group, we're well-placed to capture any increased premium flow to this market, and there's plenty of room to expand if conditions become favorable. Our 2017 premium income was approximately 50% of its all-time high.

Our new downstream energy classes made a good start for 2018, securing new business for the group, and our new power team will commence underwriting during the latter part of the second quarter. Once these product lines are fully established in 2019 and beyond, we'd expect them to generate approximately $20 million to $25 million of gross written premium combined assuming, of course, stable market conditions.

Kinesis grew (00:05:48) the 1st of January by approximately 28% and premiums written by approximately 33.5%, managing to grow with both existing and new clients. The first time in many years, the overall trajectory is upwards. Rates have improved and there have been some small opportunities for new business. As a result, our gross premium has grown modestly year-on-year. Gross premiums grew by 9.8% and total premium under management grew by 15.3%, reflecting the modestly improved environment.

As we previously explained, any growth will be driven by the underwriting opportunity. If the risk return metrics make sense, then we're happy to deploy capital. Whilst the rating environment is positive, we are coming from a base that is historically low, given years of rate reductions. As such, our growth is broadly in line with the rate improvement plus a small amount of new business.

The group's risk levels not materially increased, producing a portfolio with a better risk-adjusted return year-on-year. From an underwriting perspective, the first quarter is positive. The rating environment for our portfolio is improved, combined ratio is very respectable, premiums have grown modestly, and risk levels have been managed appropriately.

As the group progresses through 2018, the underwriting philosophy will remain constant. We underwrite our portfolio based upon risk and reward and have the disciplines to hold on nerve should the risk-reward metrics not transpire due to market dynamics, but also when viable opportunities due manifest, we have the capital platforms and people to maximize these.

I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Hi, everyone. While we hedge our interest rate risk with yields at the front end of the curve, rising by 30 to 40 basis points in the quarter, our investment portfolio had a loss of 14 basis points. Our underwriting results were strong and we had some releases on our prior accident years that resulted in a loss ratio of just 12% for the quarter and an ROE of 2.9%.

This is the first quarter in many years we have shown growth in our top line. However, that's a combination of the rate increases we expected following last year's cat event. Plus the new business was also less of an impact this quarter from the timing of multiyear contract.

As Paul has said, rating has improved across most of our portfolio but not as much as (00:08:10) following last year's event. But as I said before, we're well positioned to take advantage of the increases that are there and any other opportunities that may arise. We also saw the impact of rate increases in our reinsurance program. But there are few moving parts (00:08:26) the same program. Our overall spend for the year will be a little bit higher than last year though (00:08:31) deals we added this year.

Our acquisition cost ratio looks a little higher this quarter driven mostly by some adjustments in the energy construction book. I'd expect the ratio to normalize over the year to around the 27% level we've been running at. On losses, we've had very few losses reported this quarter. Our attritional ratio is, therefore, comfortably in the mid-30s. We also had a 2016 accident year energy claim (00:08:59) in our favor, a little bit of favorable development on last year's cat event plus some general IBNR releases due to lack of reported claims coming through.

Overall, we had net favorable (00:09:08) development for the quarter of $25.2 million helping us produced that loan-loss ratio of 12%. As I mentioned, investments produced a 14-basis-point loss for the quarter driven primarily by the mark-to-market impact of yields increasing. Our interest rate hedge (00:09:26) and our risk assets did what their meant to do and adjusted (00:09:27) downside impact of the increasing yields. While we expect volatility to continue and further rate increases this year, we remain well positioned to both of those. We will also have the benefit of reinvesting at higher rates in the future, and we will gradually increase our duration a little to take advantage of those higher rates.

There's a reduction in other income this quarter due to reduced profit commissions from Kinesis. As I said last quarter was the loss event for 2017, there's trapped collateral at Kinesis and no PCs under the 01/01/2017 cycle. As Paul has said, we roll about 28% more limit in Kinesis for the 01/01/2018 cycle. If there are no losses on that cycle, profit commissions could be about $9 million but the earliest we would receive that will be Q1 2019.

There's a very small uptick in our G&A this quarter. That's largely driven by the increase in sterling in the quarter. We do hedge our current exposures. We took advantage of lower sterling rate last year given our sterling cost of our UK operations and we're slightly long sterling just now (00:10:30). You can see the impact of that in our FX line in the income statement.

While there are reduced vesting expectations and in-flight stock compensation awards, which reduces the expense we record on Lloyds. The Q1 2017 charge was significantly impacted by lapses, deceases (00:10:48) departures of some Cathedral employees.

We have small gain this quarter on the mark-to-market of our interest rate swap. There's also a slight increase in your un-hedged sub debt cost given the rising rate. We also have more LSE cost coming through as we continue to fund some of our (00:11:04) Cathedral biannual fee. Ignoring this mark-to-market and any one-off costs, our financing costs are now running at around $4.5 million to $5 million a quarter.

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

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

Q&A

A - Elaine Whelan {BIO 17002364 <GO>}

Hello

Operator

We will now take our first question from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. First question on pricing. There seems to be a healthy debate right now whether we have seen the peak of pricing already in January or whether there is another peak to be expected around midyear. I wonder what you see in the market in terms of supply-demand dynamics and how this shapes up to H1 and probably also beyond.

Secondly, capital, Elaine, you just mentioned you have enough capital for 10% growth. Can you give us some color how much capital buffer you have in terms of further growth, let's say, if you go to a 15%, 20% growth, is the capital base still then comfortable?

And thirdly, on net cuts. You started to release I think $8 million of reserves, and lastly you mentioned the big uncertainty about those reserves, and I just wonder how so far loss emergence has been coming in (00:13:07) the assumptions you did back then.

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A - Alexander Maloney {BIO 16314494 <GO>}

Okay. So, Thomas, thanks to your questions. I think on rate, there is a debate. Our view and for our book I don't think rate gets stronger from here, unless there is any loss activity or anything changes. But equally, I don't think it goes backwards. Florida property cat market is not a huge, a huge market for us. So, you're probably better off listening to the rent rates of (00:13:35) world, but for our portfolio we don't see rates going backwards. But equally, we don't see big changes in rates hardening from here.

And if you think about our portfolio and most people's portfolio, you've got the run in now to the wind season, and most people would have written their income by the 1st of July. So, we don't expect any real changes. So, we're quite comfortable with where we're at on that basis.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Thomas. On the capital buffer, we're pretty happy with where we are. We think we've got plenty to handle growth. When we look at capital, we normally work at what we need from the strength on that and then put a buffer on top of that. So, there's more than adequate capital there to handle the – our growth expectations. And on the nat-cat, we did have a small release this quarter, not really expecting to see an awful lot of movement on those reserves until later in the year, no. And it's still relatively early days, most of the release so far has come from Harvey which you may expect given our memory you're going (00:14:42) to take a bit more adjusting.

Q - Thomas Seidl {BIO 17755912 <GO>}

On the Harvey, I mean this was (00:14:46) stuff and commercial line stuff, so how is the actual losses coming in those expectations there?

A - Elaine Whelan {BIO 17002364 <GO>}

I think it's lower than what we would normally expect for these kind of events.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. But you still feel comfortable and hence you started releasing reserves?

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. On a per (00:15:07) context, it's a pretty small release.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Of course. Okay. Thank you.

Operator

We will now take our next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. First question is just on I guess pricing and kind of what it's done to your book. So, looking at RPI, you've talked about 5% up (00:15:31) at Cathedral, obviously, this for new business that's why it always doesn't get increase in that calculation, could you get maybe – give an indication on whether the new business on an implied basis kind of has either higher pricing than the renewal bit? That's the first question.

And the second question, just on the, I guess, increasing energy demand. It is construction or kind of which part of the energy market do you see picking up quite strongly? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Well, Paul, do you want to start on that question?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. So, on the new business, Kamran, I would – I'd almost split it into two parts, but there's been some new business where we've grown with existing clients and that's going to be broadly in line with the RPIs you're seeing in our statements. And then there's another pocket, which is what I'd call your post-loss opportunities, which there's been some of it, not lots but there's been some, and that by nature is likely to be paying RPIs that are in excess of those RPIs that we're seeing here, but obviously probably starting from a slightly smaller base. So, that – hopefully, that answers that question.

And then on the energy piece, sorry, Kamran, was your question around where we're going to – where we expect to see the demand come from?

Q - Kamran Hossain {BIO 17666412 <GO>}

Yeah. Is it new drilling? Is it kind of existing assets?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah.

Q - Kamran Hossain {BIO 17666412 <GO>}

Kind of where do you see them, the new demand come from?

A - Paul Gregory {BIO 16314515 <GO>}

So, it will be from a number of areas. First of all, as oil prices kind of stabilizes, you'll see insured values themselves start to edge up. You would then see some of our clients starting to basically conduct more activity. So, energy contractors will be employed more and start down drilling wells for people and operators will start employing those contractors to drill wells and that just brings premium back into the market.

And then there is the construction side of the portfolio. That's probably we got bit more of a time lag on it. People won't start putting big construction projects out here until they really are comfortable that oil prices are stable, but we have just started today the new projects come to market. None of this will - you're not going to see all of these in 2018. It's going to be a slow burn, but we are starting to see the first green shoots of all of those things starting to happen. And if you want to put it in context, the kind of 2017 upstream energy premium was about half of its peak of four to five years ago. So, the energy market has room to grow if oil prices are stable and (00:18:14).

Q - Kamran Hossain {BIO 17666412 <GO>}

...it sounds like (00:18:15).

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. For us, we are uniquely placed in that market, so that is positive but oil prices do move around, obviously but where they are at the moment that gives us some room for optimism.

Yeah. On that comment, just to give you a bit more flavor, if you think about some of our property D&F (00:18:30) as they seem to occur (00:18:32) you can see a renewal account in the U.S. that's paying a rate increase but you kind of sit on and think the rate increase, you would hope for it would be more. And then, you'll see something in the Caribbean where you can charge an awful lot of money that quite frankly you just haven't read them for (00:18:54) two or three years. So, our property D&F guys are right in some business that they have the same for five years or even longer because it's been completely underpriced.

And again, this is why the market is so patchy and you have to underwrite it just to sort of work your way through the market. You can see some U.S. business where you think that's great business that should be paying - it's in Florida, it should be paying a sensible rate increase. And when the rate increase comes in, you're disappointed. And then you see something in the Caribbean that you haven't seen for five years and you can charge double the price. So, it's just patchy so you just need to make sure you got the right people to sort of sift through an evolving story. It's a bit already deflated, quite frankly.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks for the color.

Operator

We will now take our next question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, guys. Thanks for taking my questions. Just two, please. So, firstly, on the energy book again, you mentioned that the - there the current premium levels approximately 50% below peak. So, at the current oil price, could you see yourself taking the book back over like $200 million or does the oil price need to go higher from here for that to happen? That's the first question.

And secondly, the comments around trapped capital in Kinesis. I mean, is - can you give us an idea of how long you expect that to be trapped or how much capital is trapped? And just whether that's your experience is indicative of the broader market? That'd very interesting. Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Paul do you want to start?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, sure. Hi, Jonny. Yeah. So, I think Brent this morning war around $73. So - and our premium in energy was obviously significantly below $200 million last year. So, my honest opinion is at $73-ish oil and rate increasing at the level that they're currently increasing in, which is kind of like mid-single digit. It would be a stretch to get to $200 million. That said, as long as the oil price remains stable for a period of time at these kind of levels demand will come back in.

So, you can certainly start adding premium to that oil value (00:21:20) quite quickly. I think when we were north of $200 million, you were sort of looking at to the world of $100 oil. So, we've got a way to go to get there. But all the signs are encouraging. And if it stays around the $75 mark for a period of time, you'll definitely see demand coming back into the system.

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. And on that (00:21:40), Jonny, (00:21:41). We've also got there the broader footprint as well. So, we do have an (00:21:45) book as well now. And we will have a power book (00:21:47). So, it will start to move in the right direction. We do have a sort of a broader energy footprint than we had in the past. But as Paul said, $100 oil, that was a lot of business. But, it definitely feels like our energy customers have turned the corner. And when they're in London and meeting our underwriters, it's much more positive as project construction was to coming back on track, but that is a 2019 story for us as opposed to an 2018 story. But again, weirdly similar to the insurance and reinsurance market. Those guys have sort of dragged themselves off the bottom and everything is looking more positive. So, that's a good story for us.

A - Darren Redhead {BIO 17995744 <GO>}

Hi, Johnny. It's Darren. Regarding the question on trapped funds, I mean, quickly, I mean Kinesis has approximately 30% traps regarding when we'd expect that to be released. I wouldn't expect to see any of that until about after third or fourth quarter this year, more likely fourth quarter. Just as a general comment in the market overall. You have (00:22:53) released. I would imagine on average response, we'll have large amounts trapped in that. That depends on (00:23:01) investors. The losses are - but we don't count trapped funds as actually from the management or as (00:23:08) some others do.

Q - Jonny Urwin {BIO 17445508 <GO>}

Very interesting. Thank you.

Operator

We will now take our next question from Ben Cohen from Investec. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. Good afternoon. I wanted to ask two things. Firstly, just stepping back. I think at the full year, you're indicating in broad terms that because of some of the headwind from multiyear contracts in prior periods that you would expect roughly top line to be flattish to maybe slightly up this year. After the growth that you had in the first quarter, does that make you more bullish for the full year or are there some other seasonality effects that we need to be aware of in terms of timings?

And then, just on the investment portfolio. You said, Elaine, that you were going to maybe take out the duration at some stage. I just wonder what is the rate that you're investing in at the moment and what sort of – what sort of instruments are most of interest to you with what sort of yield? Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Ben. I'm going to let Denise answer your second question. And on the first one, we did mention the multiyear impact on the Q4 earnings call and we said it was a bit of $65 million last year and expected to seeing this year. We didn't give quarterly guidance on that. It's very difficult to do that given the contracts can extend or cancelled and replaced. And so, although we had growth in this quarter, there was a bit more of a multiyear impact in Q1 2017. And so – and less of an impact in this quarter .So you can still expect to see a multiyear impact on other quarters going out this year. It's not a linear thing.

Q - Ben Cohen {BIO 1541726 <GO>}

Right. Right.

A - Denise O'Donoghue {BIO 15315126 <GO>}

Hi, Ben. It's Denise O'Donoghue. Yeah. Right now, we're obviously very short at 1.7 years. So, with – we're looking at sort of 8 to 9 fed hikes over the next 2.5 years we're probably sort of midway thinking about increasing duration by taking our hedge off of (00:25:11), and that's sort of over the next 12 to 18 months. And then, we're slowly trying to increase a little bit more just to take advantage of the higher rates. So, we started thinking halfway through the hike cycle is what we're anticipating.

Q - Ben Cohen {BIO 1541726 <GO>}

Right. Right. And the investment yield on new investments at the moment.

A - Denise O'Donoghue {BIO 15315126 <GO>}

Right now it's 2.5%. So, yes, actually that's in the last couple of quarters.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Darius Satkauskas from KBW. Please go ahead.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi. Thanks for taking my question. Just one. You've reduced the loss estimate for HIM and Californian Wildfires by $8 million. How much of that is in that $25.2 million in prior year, is that development you've recorded?

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. I think that question was how much of the $25 million is HIM-related is now released? (00:26:08)

A - Elaine Whelan {BIO 17002364 <GO>}

So, within our press release, if you have a look at the loss reserves page in there, you'll see the movement in there, I suppose, just under $8 million. That's the release on those reserves there. So, you could factor that into the property movement and prior year movement.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi, yes. Good afternoon, all. Good afternoon, all. Two questions on my side. First one is related to the GWP growth in the Lloyd segment, so plus 18% in Q1. Could you give us a bit more granularity on what is driving this growth? You're pointing to property and aviation, new business but, I mean, I can understand where the growth is coming from on the property side. Aviation, I'm just struggling a bit more to understand where you're finding obviously attractive opportunities at the present time.

And the second question related to your cap protection program. So, actually, you mentioned slightly increase in the money spent, and I think that you've made small changes on the side. Just to make it clear, can you tell us if we had a return of HIM this year, I mean how much of the net loss incurred will change would that be completely stable or should we expect some slight improvements? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

All right, Thomas. On the cat reinsurance program, we made a point on the last call saying that we decided when we came to this year to buy that exactly the same cat reinsurance program that we had for last year. So, we didn't feel the need to take anymore net exposure. We've got exactly the same program. But if we – we did buy a slightly enhanced program and we did buy a bit of a retro quota share, so there may be some slightly – if you had exactly the same as HIM, which is unlikely. But if you had exactly the same pattern, we definitely wouldn't have any more risk. We'd probably have a slightly reduced exposure to what we had in 2017. But obviously, these things are impossible to predict.

But as a business or as a shareholder, we'll get more right in the front door for nine more additional net risks and that was the point when we're trying to make at the last call. And we think that's the right way to position the underwriting portfolio for the 18-year. And one thing we've always said is if rights get a lot more – if rights hardened for whatever reason, a lot more, we'll look at that position again and we're more than happy to deploy the capital if we think we'll gain (00:29:15) substantially more rate, but as we're seeing this year, where rates have gone, we're happy with the position that we took by the same reinsurance program.

A - Paul Gregory {BIO 16314515 <GO>}

On the increase in the Lloyd's portfolio, Thomas, as you said, there's some increases in the property reinsurance line, which is predominantly rate driven in direct and fac property. Again, there's some good growth there that is both right and new business, and Alex alluded to where we've seen some of that new business earlier on in the call.

On aviation, which he mentioned, there's three things there. There is a little bit of rate improvement, not huge. There is a little bit of new business, but there's also some timing around certain contracts and also that's coming from a reasonably – the percentage increase is big, but it's coming from a reasonably low base. And then on the other lines, marine and energy, you've also seen some growth there. Again, that is small amount of rate but also some increased demand, new business in those lines, albeit the dollar amounts are relatively small.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thanks.

Operator

There are no further questions from the telephone. We have a next question, a follow-up, from Ben Cohen from Investec. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. Sorry, I just wanted to ask two things. On the Lloyd's business, it looks like there's quite improvement in margin there if you look year-on-year, presumably that's driven by the price. So, just wondering if you could say a bit more about how much you're looking to grow the business through the year and the impact that you think the price increase should have on the margins that you're on now? And the second thing, more generally, the price increases that you're getting through at the moment, do you think they should start to have a meaningful impact on your attritional loss ratio if we look into 2019? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

On that, Ben, we will grow the business as much as we can according to where we think rates are. So, we have seen some good opportunities in Cathedral. We have cleaned up some of the book. So, it's one of the first years when we've really decided to sort of re-underwrite the portfolio, but that hopefully should improve the ratios over time. Obviously, only time will tell, but we have cleaned up the book. Again, they're taking now more (00:31:43) risks. So then the margin improvement is obvious and we will grow as hard as the opportunity allows us.

But as I said, we think the growth (00:31:56) sensible to the opportunity and, as I said, we have re-underwritten some of that book and taken out hopefully some of the more attritional accounts and it's one of the – I mean, 2017 was a year where because of the cat activity, it was very difficult to sort of re-underwrite the book.

But the start of 2018, as I said, in my comments, as a business, we've probably never been in a such good shape. Cathedral is in brilliant shape. The new underwriting team has been there, a long enough period now to really kind of change that business over time. And as the market opportunity improves, we will continue to grow Cathedral accordingly.

And I just think, another thing I mentioned earlier about the small things that we see, the market cannot go back with some here (00:32:44) and everything we see, particularly Lloyd's with people shutting product lines and I know the necessary behavior that we are finally seeing leads us to believe that this market has changed. It's getting there slowly and that's frustrating for everyone, including ourselves.

But I think you'll see now the sins of the past are coming back to haunt people. From our point of view, that's good. And we don't really have to do much to clean up our book really. So, hopefully, it's one-way traffic from here. But as usual, we will stay disciplined and we will only match our underwriting to the opportunity, and quite frankly, that's why this company has had the results it's had for such a long period of time. So, it is an evolving story. We will grow as much as we need to or as much as we can, but I do think – I just can't say how the market goes by from here (00:33:41).

Q - Ben Cohen {BIO 1541726 <GO>}

Right. Thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Ben. On the (00:33:48) guidance, I mean we're still pretty happy with what we're guiding. (00:33:51), but you're right (00:33:57) higher rate will earn more into 2019. If you feel like (00:34:03) adjusting the attritional loss ratio, feel free but it wouldn't really move it that many points at this stage because we're looking at kind of a 5%-ish rate changes.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you very much. Thanks.

Operator

There are no further questions from the telephone.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you for your questions, and we'll talk to you next quarter.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.