FY 2020 Earnings Call

Company Participants

- Alex Maloney, Group CEO & Director
- Denise O'Donoghue, CIO
- Natalie Kershaw, Group CFO, Group CAO & Director
- Paul Gregory, Group Chief Underwriting Officer

Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Emanuele Musio, Analyst
- Faizan Lakhani, Analyst
- Iain Pearce, Analyst
- Kamran Hossain, Analyst
- Oliver Troop, Analyst
- Paris Hadjiantonis, Analyst

Presentation

Operator

Hello and welcome to the Lancashire Holdings Limited Year-end 2020 Results. (Operator Instructions) Please note this call is being recorded. Today I'm pleased to present Alex Maloney, Group CEO; Paul Gregory, Group CEO -- COO; Natalie Kershaw, Group CFO. I will now hand it over to Alex Maloney. Please go ahead.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you, Operator. Good afternoon, everyone. As I look back on 2020, it's been a year presented with many challenges for the Lancashire Group and the broader insurance industry. But these challenges seem insignificant when compared to the human suffering of this coronavirus brought to the world.

We are incredibly lucky to work in this industry, which has demonstrated both the financial resilience and the operational continuity in the face of worldwide pandemic. I'm immensely proud of how the Lancashire Group has continued to operate throughout a difficult period.

My colleagues have continued to demonstrate the professionalism, dedication in the face of remote working in these 12 months. Many were the additional responsibilities of home schooling and caring for loved ones. As we enter 2020, we believe that the underwriting climate will continue to improve following the continued improvement we have witnessed the bottom of the pricing cycle in 2017.

Therefore, with strong routine 2019 earnings, we sought to grow into this opportunity to deploy our long-term strategy to grow into a better market. Our First Quarter was orderly, but as COVID-19 (inaudible) during the Second Quarter, we witnessed a material change in the underwriting opportunity as financial and insurance markets became very volatile.

In the face of this material change in the underwriting opportunity, we decided to raise additional capital to grow further. During 2020, we have grown our premiums by 15.2%, but more interestingly, our underlying premium growth rate of 22% demonstrates what we believe to be a more comparable picture of the progress our business is making. We have continued to grow as the underwriting opportunity has increased.

We've now grown premiums by a compound annual growth rate of 11.2% since 2017, and our aggregate right change for our renewal portfolio is between 17% to 29%. We will continue to grow our premiums as rates improve again during 2021.

Our January renewal period was a success. We've been able to expand our premiums further, deepen client relationships and (inaudible) in new classes of business. The rate change we witnessed was in line with our expectations, but the weight of opportunity we enjoyed exceeded our expectations. But we will always -- our focus will always be on rate adequacy and not individual data points.

When it's setting the new opportunities we saw at this renewal, we have still declined more submissions than we have written, which, in our view, shows there is still much work to be done to repair the damage done during the soft cycle. We have now successfully deployed the majority of the capital we raised in June, which is in line with our expected time line of 6 to 12 months from raising. As we assess underwriting opportunities as the year progresses, we will assess our capital needs in line with our long-term active capital management strategy.

On COVID, our loss estimate remains unchanged at this point, but I will reiterate what I have said many times: COVID-19 is an ongoing event and our loss will take -- and the loss we take years to mature. Therefore, we would caution any commentary, which suggests that the industry has enough data at this point to suggest the ultimate loss quantum is lower than originally thought. I believe it's far too early to make such a call.

The outlook for the Lancashire Group is strong and we continue to see improvements in rating across the vast majority of our underwriting portfolio. We believe this will continue through 2021. There are many hurdles ahead. COVID loss quantum uncertainty, (inaudible) reserve issues and the low interest rate environment, to name but a few. So the job is far from complete before our industry see more sustainable risk-adjusted results.

In summary, I couldn't be happier with our current market positioning. We are growing with the improved underwriting opportunity, and we've navigated a difficult 2020. We continue to add new talent to our business and continues to see lots of opportunity to build our business at the appropriate time in the insurance cycle. Lastly, I would like to thank our shareholders for their support and my colleagues for their continued hard work, making our company what it is today. I now pass over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thank you, Alex. 2020 has seen numerous challenges from an underwriting perspective. However these are insignificant compared to the challenge faced by others directly impacted by COVID-19. Of this, we are very aware. We pride ourselves in our underwriting. So it will always be disappointing to report a combined ratio above 100%. However given the context of the year, with COVID-19 and numerous risk and natural catastrophe events, this result is perfectly manageable. It does not in any way prevent us from continuing to grow into the underwriting opportunity that has been slowly building since 2018 and accelerated earlier in 2020.

2020 was the third year of rate rises across our portfolio. Our 2020 RPI of 112% shows continued positive momentum, and we saw each segment of our business in positive rating territory. Both our top line and underlying growth were pleasing and will continue to grow in 2021 as rate momentum builds. It's fair to say at the start of 2020, we anticipated an improved market. The COVID-19 created the impetus for conditions that were better than these original expectations.

For 2021, we've added 3 new classes of business: accident and health, specialty treaty and casualty treaty. We continue to actively renew other new opportunities to either broaden existing classes or enter new product lines. We will continue to promote and develop homegrown talents as well as recruit new underwriting talent to our expanding team.

The start of 2021 has been very positive. We are very happy with the 1/1 renewal season. Market conditions were in line with our expectations, but the opportunity to write more business at improved pricing was ahead of what we had anticipated. This is particularly true in the natural catastrophe exposed classes, and we've been able to deploy a significant amount of the capital we raised. At the time of the raise, we gave a 6 to 12 month window for using this capital and we are extremely confident of delivering on this.

Turning to our own reinsurance purchasing. We renewed the majority of our reinsurance protections at 1/1. Again conditions were consistent with our expectations. In line with market conditions, we have had to pay more for our protection as the market has hardened, but we have offset some of this by retaining more risk in some of the natural catastrophe exposed business lines.

In the specialty lines, protections we have purchased are broadly similar to last year in terms of structure. When considering reinsurance spend, it's worth noting that the new lines of business attract a disproportionate reinsurance spend until the book matures. We would also guide you to look at reinsurance spend as a percentage of top line over a full year as opposed to pure dollar spend. Our outlook for 2021 is positive. We expect rate

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rises to continue across our portfolio. We have a strong belief that we can continue to grow.

There will undoubtedly be challenges, we have signaled a number of times of difficulties some of our clients are facing and will continue to face as a result of COVID-19. This remains the case. However we have the platforms, people and capital flexibility to continue to maximize the opportunities we'll see in 2021.

Lastly, I'd like to thank the underwriting team and everyone who supports them throughout the business for their dedication and effort over the past 12 months. Whilst we acknowledge how lucky we are to work in an industry that's been able to weather the COVID storm relatively well compared to others, our work practices changed considerably. I remain incredibly impressed that the transition has been so seamless. I will now hand over to Natalie.

Natalie Kershaw {BIO 21394441 <GO>}

Thanks, Paul. Hello, everybody. 2020 was an exceptionally challenging year operationally as well as financially. Therefore I am very pleased to report a small profit of $4.2 million for the year and comprehensive income of $24.3 million.

Our growth in fully converted book value per share of 10.2% was favorably impacted by our equity raise. Without the equity raise, the growth of fully converted book value per share would have been $2.4 million.

As mentioned by Alex, the growth momentum in gross premiums written from both rate rises and new business continued into the Fourth Quarter, with annual growth premiums written increasing by 15.2% compared 2019. Underlying premium growth, excluding the impact of multiyear contracts and reinstatement premiums, was around 23%.

The (inaudible) segment contributed to the growth, the largest increases in dollar terms when the property catastrophe excess loss, property direct and facilities and aviation classes. Whilst we don't give top line guidance, we do expect the premium growth momentum we have seen in 2020 to continue into 2021. The impact of multiyear premiums on the top line will be lower than in recent years.

As a reminder, the positive impact of top line growth earned by, on average, over 12 to 18 months. So the majority of the benefit from 2020 will not impact the bottom line until 2021. The percentage of premiums earned, premiums written is lower relative to 2019. This reflects the significant inwards premium growth that will earn-out in future periods.

Our reinsurance spend for 2020 is only 4.5% higher than last year, having increased at a significantly lower rate than the inwards book. Most of our program were used in January, so we were able to benefit from locking in rates early in the year. The increases that we have seen are largely due to growth on the inwards book on lines where we have (inaudible) in place.

Our acquisition ratio of 24.2% is marginally lower than last year, reflecting a change in business mix with proportionately more property catastrophe and aviation business that tends to have relatively lower commission costs.

Turning to our loss experience, where we have witnessed a very active year for losses, including the impact of COVID-19, natural catastrophes and the high unusual frequency of risk losses. Although our estimate of the net financial impact for COVID-19 has remained stable at $42 million, this is an unprecedented loss for the industry and an event which is still ongoing. So there is a large degree of uncertainty still remaining. Our current estimate is largely focused on the property classes, and the majority of the estimate is IBNR.

Natural catastrophe losses incurred in the year include Hurricanes Lara and Sally, the direct storms in the Midwest and the California wildfires. In 2020, we booked a total of $68 million for these events, net of reinsurance (inaudible) contributing 14.1% for our loss ratio. As noted last quarter, the Third Quarter of 2020 saw an unusual frequency of single risk losses. This run of risk losses continued into Q4, where a number of new energy losses were reported. Although none of these events are individually material, they are in excess of the normal level of attrition that we guide to and totals in a region of $43 million for the year. These types of losses are not unexpected given the portfolio that we write.

Prior year favorable development in Q4 totaled $40.8 million, bringing our total releases for the year to $52 million. In Q4, we released some reserves relating to the 2017 (inaudible) with the remaining releases largely relating to IBNR due to a lack of reported claims. Given our experience in 2020 and the potential for secondary impact from COVID-19 on the cost of (inaudible) claims arise across the book as well as some of the new business lines we are rising being more attritional in nature, I would keep my guidance for attritional loss ratios in the region of 35% to 40% for next year.

Investments produced a total return of 3.9% with all our asset classes positively contributing to the return by the end of the year. 6 majorities have equated 4 of the losses from the First Quarter with a hedge fund and private debt funds performing particularly well in the Fourth Quarter. We expect to be in a lower-yielding environment over the next two years, but do not anticipate any significant changes in our investment strategy or allocation.

As a reminder, we carried excess headroom over our internal preferences, enable our rating agency requirements coming into 2020. Therefore, even given the active loss year we have seen in 2020, all the capital raised in June was available to take advantage of the continuing rate improvement that we (inaudible) 1/1 renewals. And finally, in line with our stated dividend policy, we are declaring our normal final dividend of $0.10 per share or about $24 million. With that, I'll now hand over to the operator for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Kamran Hossain from RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

A couple of questions. The first one is on, I guess 2021. Last year, COVID was pretty (inaudible) for the whole industry. What do you -- are there any potential events in 2021 where things could be triggered? I know there's a huge amount of uncertainty on loss potential, but are these -- is that uncertainty coming from things that happened in 2020 or is there still kind of uncertainty from things happening in 2021? So that's the first question.

The second question is, I guess given the kind of shift in the book towards more attrition to kind of more attritional classes, how should we really see the better prices or kind of better rate in the numbers going forward? Then the third question is, if the opportunities do disappear, and I really, really, really hope they don't, what do you think you do to the capital? Do you do like -- would you simply look to return or I saw one of your peers did something similar to that very recently. So any thoughts on that would be interesting.

A - Alex Maloney {BIO 16314494 <GO>}

Kamran, on COVID, I'm going to reiterate what I said on day 1, (inaudible) nearly a year into this loss, there is still a high level of uncertainty, and that pretty much applies to everyone. I think there's going to be uncertainty around losses themselves. There's going to be uncertainty around do we have a true picture of the losses that we have today versus where we're going, (inaudible) our book, but you're going to have currency uncertainty around COVID, like possibly there's going to be lawsuits. Then I think one of the other U.K. companies stated something about reinsurance disputes. I think that's a very real possibility. So I think that there is a high level of uncertainty around regional losses, reinsurance recoveries, the (inaudible) itself is ongoing. So I just think we need to be crystal clear. Everyone should be crystal clear about that.

So unfortunately, as with personal life and business like, COVID does change every day it appears. That continues. I think the difference for us is even with the uncertainty around COVID, does it change what we want to do as a business despite of the cycle, and the answer is absolutely not. So people with the uncertainty, our business just moves forward, and we're going to look to maximize the opportunity, whatever that may bring. I think just on rates coming off in the year. For me, there's enough pause in the other direction that lead us to believe that '21 is going to be another year for us to grow, our rate trade to continue. Because I think if you just look at the COVID uncertainty itself, if you look at the casualty reserving piece and whatever that number is, there's clearly some dollars that need to be deployed there.

And we've all seen a running higher risk losses, I think there's enough pause in that direction. And quite frankly, let's be honest, no one's even made profit yet. So for me, I'm confident about '21, confident there's still going to be opportunities, and we're going to move forward as a business. Natalie, do you want to answer the attrition?

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes. So like you say Cameron, there's a few things going on with attrition. The first thing, which is quite specific hopefully to next year is that COVID is just increasing loss expenses generally. If you think about it, just in your private life, everything has taken longer (inaudible) is difficulty in the supply and labor. So we expect for that to have an increase on attritional losses next year.

Then as you mentioned, we're also looking to change our business mix slightly. So the new lines of business that Paul mentioned are more attritional and obviously going into new lines, we will write them relatively extensively early on.

Then we've got newer lines that we wrote in recent years, such as aviation deductible, that are also more attritional in nature. But having said that, we think guiding to an attritional ratio of 35% to 40%, we can still be profitable at that level. We think that's the best thing to do going forward.

Then I think your last question was on capital. There's no change to our capital management strategy, we will always just match our capital requirements to the underwriting opportunities that present themselves.

Operator

Our next question comes from the line of Oliver Troop from Autonomous.

Q - Oliver Troop {BIO 20035307 <GO>}

Yes. Oliver Troop from Autonomous here. (technical difficulty)

Firstly, sort of (technical difficulty) results. It strikes me that the key drop additional in the second half was mainly -- which mainly -- which you may have referenced in your opening remarks. I think if I calculate, you had something like (inaudible) ratio in the second half. Could you just give us a bit more color on mainly downstream. Second question. Over the last couple of years, (technical difficulty) leases with the full year results. Is that coincidence or is it also to do with the timing of your views?

Then third question. I think new classes -- the two new classes you mentioned. Giving us with the timing of when we'll expect to see build out and come through in GWP.

A - Paul Gregory {BIO 16314515 <GO>}

So sorry. But your line is really breaking up. You're going to have to start back, I'm afraid, because we just couldn't hear mostly what you say.

Q - Oliver Troop {BIO 20035307 <GO>}

Sorry about that. And back to the first question. Okay. So the first question was just about energy segments. So I think you had something like 105% loss ratio in the second half, which is (inaudible) higher attritional over the second. Could you just give us a bit more color on that? And second question, (inaudible) high (inaudible) leases with the full year results over the last couple of years. Is that just coincidence or is it to do with the timing of your (inaudible)? Then third question, just on you (inaudible). Just if you could give us a bit of guidance or help on what (inaudible) burn out and when will see that come through in GWP?

A - Paul Gregory {BIO 16314515 <GO>}

Right. Okay. So we're going to answer your questions on what we think you said. No worries, Oliver. I'll take the first one, which I think was are -- we had a few energy losses in the second half of the year, and you'd like some color around that, correct?

Q - Oliver Troop {BIO 20035307 <GO>}

Yes, please. Yes.

A - Paul Gregory {BIO 16314515 <GO>}

Okay fine. The energy is -- energy is a class of business that is inherently volatile. What we have seen, you're quite right, in the second half of the year, there were a number of what I would call mid-sized losses, both in the upstream and downstream part of that portfolio. As Nat has alluded to, our view is on those that could potentially be COVID implications in the cost of repairs, the speed of getting those repairs done could play a factor. So we're obviously taking that into account when we've reserved.

I mean a general point on energy I would make is it's been an incredibly profitable line of business for us, not only since our inception, but certainly over the last few years. But it's a class of business that can have losses and what we have seen. We spoke quite a bit about it in Q3, is we did have an unusual number of them. None of them, in particular, are particularly large. As I said at the start, they're midsize, but it was more the frequency. We're not overly concerned about there being a trend. As I said, historically, the energy book has been profitable, and we have been seeing great momentum to varying degrees, depending on where you are in the energy portfolio over the last number of years.

A - Natalie Kershaw {BIO 21394441 <GO>}

I think on the reserve releases in the Fourth Quarter?

Q - Oliver Troop {BIO 20035307 <GO>}

Yes. Basically, do they tend to be higher in Q4 just because of the time (inaudible) or is it just coincidence?

A - Natalie Kershaw {BIO 21394441 <GO>}

If you look historically the reserve releases, I think we guided $10 million to $15 million a quarter, (inaudible) come through more in the second half of the year. It's partly to do with, obviously year-end reserving, but also, we -- obviously we see more information as it goes on. The reserve releases that we've seen in this Q4 were from 2019 [ph] and there were forecasted events in 2017, if you remember. We basically had small releases across all of those losses. It wasn't a kind of one loss that was driving that release. Hopefully, that's helpful.

Q - Oliver Troop {BIO 20035307 <GO>}

Yes. That's great. Then the new classes and the timing. When will these come through in GWP?

A - Paul Gregory {BIO 16314515 <GO>}

Yes. Yes. Sure. So we always -- new classes will always enter relatively cautiously but obviously going to be driven by the market opportunity. I think if you look at some -- in terms of GWP for 2021, when we entered 3 new classes in '18, we gave a range, and we'll do the same this time. I would suggest for those 3 new classes from a GWP perspective in 2021, you should be looking at anything between $40 million to $60 million.

Operator

Our next question comes from the line of Ian Pearce from Credit Suisse.

Q - Iain Pearce {BIO 19522835 <GO>}

The first one was on the retro spend. Thinking about it mainly in dollar terms, you said that you paid more for your existing retro and that you expect quota share lines to grow increasing retro spend in those areas. I'm just wondering which areas you've cut? Sounded like mainly on the property cat side. If you expect that to have a bigger impact than on the growth that you've seen?

The second one was on some of the headwinds, from things like multiyear deals and things like Terra [ph]. Do you anticipate that that's now reached to sort of end and the shrinking in some of those areas won't continue into 2021? Then the final one was just on the loss ratio guidance where you pushed up the top end of that range. It sounds like that's COVID supply chain issues related. So should we view that as a sort of one-off increase in the top end of that range? With the rate increases that you're expecting, should we be expecting for that range to tighten and potentially move down into 2022?

A - Alex Maloney {BIO 16314494 <GO>}

Okay. I'll take the first one, Ian, on spend. So if you break our portfolio into the kind of catastrophe exposed lines and then the specialty insurance lines. On the catastrophe exposed lines, as we know, the market is hard, and we're certainly not immune from that. We went into our renewals, expecting to pay more for our cover. That is what happened, albeit it was in line with our expectation. As we grow out some of those lines, we have to buy a little bit more cover, but on a kind of net basis, we've retained more. So we've retained more risk. At the bottom of programs in some areas, we -- on the cat side, we've bought less quota share, for example. On the new lines of business, as I mentioned in my script, you always get a disproportionate reinsurance spend early on in a portfolio. That kind of rectifies itself as those portfolios mature over the kind of 2, 3-year period. We saw that with the new lines we went into in '18.

Then on the specialty insurance lines that we currently write, the coverage we bought is broadly in line with what we had last year in terms of structure and those products were less impacted in terms of rate movement, albeit there was rate, we had to pay more on some of those lines as well, again in line with market conditions. I think as I said in my script, on the overall, when we come out at the end of '21, the way to look at it is what's our reinsurance spend as a percentage of our top line.

A - Natalie Kershaw {BIO 21394441 <GO>}

Okay. I'll take your second question on the multiyear deals. So I think last year, we guided to about $30 million impact from multiyear deals. I'd expect maybe around half of that looking into next year. So there's a few things going on. Firstly, some of the multiyear deals that we wrote a couple of years ago in property, cat and energy, we're actually going to be new next year. And also we wrote less multiyear deals in 2020 in those classes. As you'd expect, as prices rise, there tend to be fewer multiyear deals. So just to note that (inaudible) always consists of one-off multiyear deals, and they're very hard to forecast and the sector always not renewing. So those types of lines are things like political risk construction.

Then your third question was on the higher attrition. I think yes. Is it going to be a one-off in 2021? I think we're just going to have to keep an eye on that through 2021 and update you maybe in the Second Quarter next year.

Operator

Our next question comes from the line of Faizan Lakhani from HSBC.

Q - Faizan Lakhani {BIO 20034558 <GO>}

I have a few questions. So coming back to the attritional. I understand that there's an element of business mix change and COVID, in fact. Firstly, how much do you believe the COVID impact influence your attritional in 2021? And even outside of that, I would have assumed a better result on the attritional, given the level of rates you're seeing. Is it a case that you're growing volume quicker than raise and, therefore, maybe a writing business at a slightly lower margin? That's question one.

Question 2. You posted a very strong reserve release in the second half of the year, and you provided a disclosure of the key drivers. Something that some of your peers pointed out was that the Q3 losses had about adversely over Q4. Have you guys seen anything like that? Had any of the losses from Q3 moved out at all?

And the final question, on the new lines of casualty lines where you potentially look at right around $60 million worth of business. Will you be booking that around 100% combined ratio in year 1 and then seeing some of or should we have different assumptions in terms of what the profitability of that book will be in year 1?

A - Natalie Kershaw {BIO 21394441 <GO>}

Okay. So on your first question, I think -- sorry, (inaudible). It's mainly to do with the business mix. It's not to do with we're not seeing the benefit of the increasing rates coming through. It's more to do with that we are writing these new lines of business and we reserve for them conservatively to start with. Then your second question on Q3 deterioration. No. We didn't see any particular deterioration in Q4 from how we reserved in Q3. Again we probably reserved quite conservatively in Q3.

A - Paul Gregory {BIO 16314515 <GO>}

And just 1 last point on your last question about new lines of business. Just to be clear, that $40 million to $60 million range that I gave to an earlier question is for the 3 lines of business, not just casualty treaty. So that's for accident and health, specialty treaty and casualty treaty. That $40 million to $60 million is encompasses all of those lines. On casualty, that we will apply our normal approach to reserving, which is being prudent, particularly in a new line of business and what is a completely new line of business for us as in it's long tail. So we'll always look to approach -- use a prudent approach in all circumstances.

Q - Faizan Lakhani {BIO 20034558 <GO>}

I'm sorry, just to come back quickly into on the attritional loss ratio. You mentioned that in part due to business mix and prudent, you put in there. So can I assume conversely that your reserve release guides $15 million a quarter is probably too low going forward then?

A - Natalie Kershaw {BIO 21394441 <GO>}

I don't think that's too low going forward into 2021 because if you think well, the losses we've had this year, such as COVID, we would definitely not be looking to think that we could release any of the COVID reserves next year. So I think for next year, that guidance is still fine.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay. Okay. The attritional range you provided? I think it was asked before that potentially the top end is up 2 points. Is that -- can we assume that 2 points this year were due to COVID related inflation?

A - Alex Maloney {BIO 16314494 <GO>}

I think it's just too hard to model. I think clearly, we've got some claims that has (inaudible) larger than you would normally expect because of the issues that we stated. But I think these 2 as a model. Then there's clearly other classes business where maybe your restrictions come down just because things aircraft is an example of (inaudible). That is an estimation, we're trying to be conservative here and try to manage beyond home quite quickly.

Operator

Our next question comes from the line of Andreas van Embden from Peel Hunt.

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

Just 2 questions for me, please. First of all, on the capital you raised, the $340 million last year, could you perhaps say how much of that was utilized at the January renewals? And how much will be sort of put to work in the remainder of the year, sort of approximately? And the second question I had was on the COVID-19 losses. Could you mention how much of that COVID-19 exposure, the $42 million, is within your reinsurance book? And how much is within your insurance property book?

A - Alex Maloney {BIO 16314494 <GO>}

Yes, Andreas, on the capital, the majority of the capital we raised in June was deployed (inaudible). Obviously we raised in June. We obviously had the Florida renewals, et cetera, because we had a strong capital base already, we could utilize some of that. So 1st of January really was our first opportunity to deploy a majority of that capital. And as I said earlier, the weight of business we saw was in excess of our expectation. I think that's just the nature of what's going on in the market. I mean the rate was where we thought it would be, but the volume of business we saw exceeded our expectations, and I think there's certain carriers that are going forward and growing at the moment and certain carriers that are shrinking, and that's a granular opportunity for us.

On the COVID number, we don't really give that split at the moment. What we would still reiterate is it's still early days and we don't have a lot of data. Most of our losses are IBNR. So I'm quite sure that's really give you anything at the moment.

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

So Alex, if you've used sort of most or all of that sort of capital already, what capital will you be utilizing to grow into the Japan renewals in April and U.S. renewals in June, July?

A - Alex Maloney {BIO 16314494 <GO>}

Yes. I think it's a good question, and we will assess those opportunities when we see them shortly. If we need more capital, we'll decide how we service that. So if the rate changes there, the opportunity there, we'll definitely think about how we utilize that opportunity. And look, we're pretty flexible on capital here, and we can get to our numbers quickly. So we -- that's what we're thinking about.

Operator

Our next question comes from the line of Paris Hadjiantonis from Exane BNP Paribas.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

So going back to attritional losses. I guess what I'm trying to understand better is that if you had a like-for-like portfolio rather than adding new businesses, which are reserved at higher levels and come with a higher attritional loss, which would we be looking for essentially kind of an improvement? Will you see in line with your RPI disclosed at plus 12% for the year? And -- or is anything in there which makes things a bit more complicated?

Beyond that, on the investment portfolio, I think that at the half year stage, you were flagging about some potential changes in asset allocation. I'm just wondering where you are with regards to that right now and whether we will be seeing any changes to the investment allocation? Then going just back to what Andreas was just asking earlier on the capital acquisition. The way you phrased it, Alex, makes me think that the potential of additional equity capital raises, if you do see the opportunity, has actually gone up versus Q3. Is that the right way to think about it?

A - Alex Maloney {BIO 16314494 <GO>}

Yes. So I think all I'm trying to say is that the opportunity is there, you would expect us to grow into opportunity, and if that requires more capital, obviously we need to work out how we're going to service that opportunity. So I think that's what I'm saying. I think obviously it's quite a fluid market. We'll wait and see where the opportunities are. So I think that's what I'm saying at the moment. But on the investment question, can we go to Denise for that, please?

A - Denise O'Donoghue

Sure. Yes. We haven't made significant changes. We had the capital raise in June, which we used up and put in the portfolio on a relatively similar asset allocation as we had. I would say the significant changes that we've made is a reduction to the hedge fund portfolio and adding some private debt and looking for small allocations to where we can find some uncorrelated risk kind of coming into a very low-yielding year. We expect yields to remain low for the next couple of years. So we're looking for small opportunities, but no big significant changes at all. We'll keep duration as well fairly steady.

A - Natalie Kershaw {BIO 21394441 <GO>}

Okay. Aris, it's Natalie. Back on the attritional question. Yes. As we said earlier on, the main difference is, aside from the business mix, is the impact of COVID which, as we've said, we are taking conservative view on because we -- too early to tell what the impact might be on claims cost going forward. So that's the main change as well as the business mix.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Can you give us an idea of how important that changes in terms of percentage points?

A - Natalie Kershaw {BIO 21394441 <GO>}

No. As I said, we haven't modeled that.

Operator

Our next question comes from the line of Emanuele Musio from Morgan Stanley.

Q - Emanuele Musio {BIO 22451155 <GO>}

Just a quick question from me, and apologies for insisting on this topic, but I would like to understand a little bit more about underlying combined ratio. So you say that the underlined combined ratio has been impacted by these new lines of business. So from a combined ratio point of view, it looks worse. So I struggle to understand why you took the decision to deploy capital into these lines. So am I -- maybe from a return on capital point of view, this business is perhaps equally attractive versus other lines. I mean this would be the case, for example, if capital intensity of these new lines is lower. So I'm just trying to understand how we should look at it. Because it looks like, so far, somewhat combined ratio dilutive, if you see what I mean? If you can help me understand a bit more, please.

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes. Emanuele. it's Natalie. I think one thing to consider is going into these new lines. As you said, they're less cut for intensive, but they're also less volatile. So that's one thing that we find attractive about them. Then we still think even with an attritional ratio of 40%, we still expect to be profitable, and we can make a good return for our shareholders, which is what we always look at when we raise capital. We definitely wouldn't be raising capital if we didn't think we could make a good return on that.

A - Alex Maloney {BIO 16314494 <GO>}

And obviously that portfolio (inaudible) combined ratio, just way to look at it. Obviously the business, we would not be adding if we thought it was accretive for our business.

Operator

We have one more question on the call. (Operator Instructions) Our next question comes from the line of Faizan Lakhani from HSBC.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Just one kind of follow-up on the capital. How close are you willing to operate to your raising capital before you look to raise new equity? So just trying to understand the quantum of growth that's required before you go to the market here?

A - Paul Gregory {BIO 16314515 <GO>}

So nothing effectively changed. We have various ways we do of capital. Obviously Amvest [ph] is probably our biggest driver. We have different examples of headroom dependent on where we are. So obviously if we -- we're in (inaudible) we're looking at online for our (inaudible) we look at it another way. So I think what we do have, we do have time on the our flexibility. So that's what leads us to sort of sit here and play and see what the market opportunity is and make those capital decisions there. So it's not anything that we have to rush the market now as a saving. As long as we're managing our quote per mills, we've got pay of time between now and we season to decide (inaudible).

Q - Faizan Lakhani {BIO 20034558 <GO>}

I appreciate it's quite difficult to give a number, but in terms of are you willing to say hundreds of millions above the rating capital or what sort of buffer do you need before you come to the market, even with or without being --

A - Paul Gregory {BIO 16314515 <GO>}

As you know, we don't give you numbers or buffers because I've spent my whole life answering questions about special, so we're not giving that number.

A - Natalie Kershaw {BIO 21394441 <GO>}

We'll be publishing our regulated -- regulatory capital position at Q1 like we did last year. But as Alex has said, it's clearly that drives our capital needs and really the (inaudible) capital.

Operator

Our next question comes from the line of Ben Cohen from Investec.

Q - Ben Cohen {BIO 1541726 <GO>}

I just wanted to ask, on the admin expense ratio, how much leverage do you expect there to be looking forward into next year? I think you had a small improvement in 2020. Should we expect, given the growth, that you get a more material improvement? And the second question, just on the capital point. Just briefly, in terms of using debt, given the additional equity that you've raised, is there an opportunity for you to raise debt? And could you help us to think about how to quantify that?

A - Natalie Kershaw {BIO 21394441 <GO>}

Ben, on the admin expense ratio, obviously we are increasing the headcount, right, in some of the new business lines. So I think you'll see in our results that we've increased headcount around 20% in 2020. So the dollar costs will be higher than previously. However we do think that the increase in premiums will offset that. So we do anticipate a lower G&A ratio going forward. So it makes sense perhaps to look back at like 2016, 2017 levels for the G&A ratio. Then on the debt question, as I just said, we'll look at all different ways of managing our capital. That will be one consideration that we look at as well as equity.

Operator

We have no more questions from the lines. I will hand it back to our speakers for any closing comments.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Thanks very much for your questions.

A - Paul Gregory {BIO 16314515 <GO>}

Thank you. Bye.