Q3 2021 Sales and Revenue Call

Company Participants

- Adrian Peter Cox, Chief Executive Officer & Executive Director
- Sally Michelle Lake, Group Finance Director & Executive Director
- Unidentified Speaker

Other Participants

- Analyst
- Andrew Ritchie
- Benjamin Cohen
- Derald Goh
- Faizan Lakhani
- Freya Kong
- Iain Pearce
- Ming Zhu
- Nick Johnson
- William Hardcastle

Presentation

Adrian Peter Cox {BIO 16257010 <GO>}

Good morning, everyone. Welcome and thank you for taking the time to dial in to our Q3 IMS. Overall I think a reasonably positive quarter for us. We indicated back in the half-year, our desire to grow exposure in this market year-to-date now that's plus 6% up from 2% of the half-year and our original plan, which is pleasing. On net to gross premiums are roughly the same ratio that they were in the half-year.

Overall, I think the pricing environment going into 2022 is slightly firmer than we had thought at the beginning of the summer, driven really by proxy and reinsurance. There are still bits of rate increase tapering across the business, but they are fewer than they were in our Q2. I think that's encouraging going into next year.

We continue to reduce our overall aggregates and the rate change in cyber continues where it was back in the summer. And at the levels we shared there. And we have less cyber as a proportion of our overall business than we did 12 months ago. However, we are still finalizing our 2022 plan for cyber. And if the favorable loss trends persist and the demand supply dynamics remain, there may well be an opportunity to regrow that business again, which is very exciting for us.

I'm pleased with our performance in the -- during the cats in Q2 and Q3, there were quite a number of those, but we have done quite a lot of work on our property and reinsurance books and that appears to be paying off. When we look at the overall cash activity for the year, the costs for us are running ahead of the cat margin that we had and that's the drive of delinquencies moving our guidance from low 90s to mid-90s. However, our capital position remained strong and within the preferred range, concentrating all the loss activity to date and the growth plan we have for next year, which is fully funded for.

We don't often highlight investments. But I think the team has done a very good job this year, generating 1.4% year-to-date, almost remaining within risk appetite and not changing the risk appetite. However, it is a difficult environment and I'm not sure how much more they can make between now and the end of the year.

To mention quickly the Beazley Benefits, the business that we sold earlier in the year, it was a good business, we've probably had for a while, but the admitted benefits business in the U.S. is very -- PNC market. And we had hoped to find some synergies between that product and the rest of our product set which we can never quite do. And so, strategically made sense for us to sell it, it was about $30 million of book for us overall, so not a significant amount of premium.

Lastly. I'd like to welcome Bob Quane in to Beazley as CUO. And I look forward to introducing him to you all at the year-end. And with that, then I'd like to open up to Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) The first question today comes from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Morning, Adrian. Thanks for doing these calls. First question, just on the cat losses, you just clarified the breakdown between property and reinsurance. I guess, I'm trying to understand, I think you said with the Uri loss in Q1, you were a bit surprised at the property exposure on that through sort of binders et cetera, how has that played out for the Q3 losses?

Secondly, on capital planning, is there a meaningful benefit to capital beyond the game from selling global life? And also on capital planning, is there any plan change into the gross versus net given the amount of growth you're seeing? I'm thinking on a projected basis or also related to that, do you anticipate meaningfully higher reinsurance costs, which would also affect the gross to net ratio? Thanks.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Okay. I'll try and remember all those, thank you, Andrew. Good morning. On the first question on catastrophes, we don't break down the mix in losses between various books or various parts of our business. I did share that we thought we were slightly disappointed with our yearly loss in Q1. We are relatively pleased with our performance in the cats across the globe in Q2 and Q3. They're much more in-line with what we have anticipated.

Capital planning, gross versus net, we probably, continue in the same portion over the -- portions over the near-term. Our ambition is to reduce the amount of insurance we buy over the cycle. And we intend to do that, as we grow our capital base, obtain more earnings and so on and so forth. We certainly are paying to buy more insurance as a proportion of the whole next year, but as they -- continue involve make sure that we seize the opportunity to build a business with the clients that we want to retain over the long term, because that's how we create value.

A - Sally Michelle Lake {BIO 20925273 <GO>}

Hi, Andrew. This is Sally here. I think you asked around the safety benefits capital and there isn't any it's not, it wasn't a significant capital driver in terms of the business that we wrote, so the benefits to capital would broadly be the sale proceeds. That wasn't a -- the reason for the sale wasn't to do with the capital it wasn't driven by capital.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

Operator

Our next question is from Freya Kong at Bank of America, please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Good morning, Andrew and Sally. I have two questions if I can. So firstly, the cyber book has always been around I think 15% of your overall portfolio in terms of premiums, given the move that we've seen in rates. How are you thinking about, your premium mix going forward and what about from a capital allocation perspective. Second question, you've talked extensively about the attractive growth opportunities in '22 and having enough capital to fund this. How do you weigh-up the attractiveness of the growth opportunities versus a return of dividends? Thanks.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thank you, interesting questions. So, your cyber question is very pertinent. We've always talked about diversification and importance of it. And the traditional measuring it has been bringing income. We are in the interesting position where we're taking aggregate exposure of the book, but the rates -- the rate changes are extreme that the overall diversification, if you measure it through premium hasn't really been impacted as much.

And so we're thinking about how we -- how to think about that going forward. I do think it's an opportunity for us to grow our solid business next year in a way that's positive for both our client and our shareholders, if there is an opportunity we may go over the 15% temporarily, it's important we retain that diversification but at the same time, if there is a very exciting opportunity we may break that guidance from time to time. And so, that's very life thinking at the moment on what we want to do next year and how we want to think and communicate about diversification.

So, if you ask me again at year end, probably has better off to see than I do now. With regards to dividends our guidance remains unchanged, we're committed to resuming a dividend at year-end. Having said that, we want to be able to do both, we want to be able to continue to see growth opportunities and restart the dividend, and I'm hopeful that we will be able to do both.

Q - Freya Kong {BIO 20097488 <GO>}

Okay, great. Thanks, guys.

Operator

The next question comes from Ming Zhu from Panmure Gordon. Please, go ahead.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning. Thank you for and picking on my question. And just two questions, please. The first is and could you just give some color in terms of your U.S. and the an old book? And this was of the overall environment there please. And my second questions and with other and sort of net cat losses, we've seen in the past couple decades, still a higher pricing mix, are you still pricing them as 100 or there should be an industry today in terms of going through one in ten year event. Thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thank you. Can you -- do you mind clarifying what color you'd like on our U.S. management?

Q - Ming Zhu {BIO 17001429 <GO>}

Just in terms of how you've risk at the moment and in terms of the rating environment. Thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Okay, so we have grown our management liability book both in the U.S. and internationally these last couple years. In a period, I think where there is elevated risk of natural calamity which we've been talking about for a number of years now. But the difference though between now and the four years ago is that we're able to under and price for that elevated risk both in the U.S. and internationally.

I think the price is environment remains strong in both sets of markets, although the rate increase is tapering currently or D&O, I think the market is fairly unanimous in its thinking that we remain in a period of elevated risk that D&O is exposed to total inflation and event based risks which continue to happen and underwriting price accordingly and whilst that unanimity remains, I think we remain positive about the product. On pricing for the cash pay risk, is a very perfect one also. We have added a load, who are promising and reinsurance business is next year for unmodeled and under modeled perils. And have kicked off a project to update our underwriting and our pricing to look forward at climate change risk.

Which I think -- a lot of insurers are starting to do at the moment. It's a complicated project, but a very important one to it and I think something will be able to talk a little bit more about at year-end.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you.

Operator

Our next question comes from William Hardcastle at UBS. Please go ahead.

Q - William Hardcastle {BIO 16346311 <GO>}

Hey, good morning, everyone, and thanks taking the call. Two questions. First on Beazley Benefits very quickly. I'm -- would I be right in thinking that future earnings impact is lost, sort of less than 1% of expectations and presumably honestly I don't know if that is small. And then the second one is more on the cyber. How should I view the incremental capital requirement year-to-date because presumably there's been a lot of this in rate not in exposure. So it shouldn't have been absorbing too much capital, but there's somewhat of a bit industry debate about the appropriate capital levels. So, is this, obviously we've got very big premium growth. Are you seeing incremental capital requirements on that. Did you or not?

A - Adrian Peter Cox {BIO 16257010 <GO>}

Good morning Will. Thank you. Thank you for those questions. The first one on Beazley Benefits, yes, you're right from an earnings impact de minimis impact looking forward. Cyber and its impact on capital are getting you're right, the increase in price that we've been able to charge this year and the reduction in aggregate as well as the marginal impact on capital from the premium growth this year, have been very much offset.

And I would looking for those dynamics remain, I think yes, we continue to make sure that we are setting the appropriate levels of capital for cyber as a class looking at both the nutritional risk but also the tail risks and the accumulation risk, which continues to evolve in change as we go and we, and in fact, the industry are continually looking at what systemic risk means for cyber and both how to manage that risk and how to make sure we're appropriately capitalized for it.

Operator

Our next question is from Truffaut Sperry from Berenberg. Please go ahead.

Q - Analyst

Morning, everyone. Thank you for taking my questions. Can you have -- can you give us a sense on, where it is, given where things down -- is more likely to add exposure next year -- as you're more likely to grow due to rate. The second instance, very positive, to hear that your actions are paying off, can you give us a sense of where overall 30% brand in the market, how do these compare with the communities being on your book, and certainly any comments on the underlying claims environment on the rest of the group people particularly -- given economies have reopened -- have resumed in the U.S. officially, thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Could you mind repeating your second question.

A - Sally Michelle Lake {BIO 20925273 <GO>}

I think I've got it. It is about where are you growing exposure and where you taking next year, the second one I think it's round, how are trends inside that -- are comparing to what the wider market is seeing and the third one is outside of cyber what are the trends that we are seeing.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Okay, all right, explosive growth, our plans for next year are contemplating sort of same mix of enthusiasm and defensiveness that we've had this year, as a sort of 85%, 15% mix we've been talking about before driven by our thought around pricing, social inflation in areas that are particularly exposed and on adequacy owned capacity pricing. And so, I think your versus of growth rates you see and difference between exposure and rate change assist into next year.

I think, by the lots trends, it's an interesting question. And we're -- quite actually we were discussing yesterday at the board. It is difficult to, to we're getting very mixed signals as to what the claims environments are doing overall. And so some evidence is that the claims training environment remains as it was in the first half of the year. But other signal shows that it may be down a little bit or we can say with confidence is what we see with our own numbers. And so I can't give you a completely certain answer on that, but it's a very good question.

With regards to claims and especially lines book, we are seeing as the courts reopen, sign that sort of behaviors and strategies, driving social inflation that we saw before the pandemic are beginning to emerge again, it is exactly what we had thought and in the areas that were exposed to social inflation which will act as we thought. And so, our position across the liability book, is exactly as it was at the beginning of the year, which is that we have found right price for it and just within 2019 and prior.

Q - Analyst

Very helpful. Thank you.

Operator

The next question is from Iain Pearce at Credit Suisse, please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, good morning. Thanks for taking my questions. The first one is on the diversification impacts in cyber. The first point is I'm just wondering why you look at it on a premium basis and not on a capital basis, especially when you're seeing rate increases like you are, it doesn't feel that the premium diversification is the right way to assess it. I guess, following on from that what sort of rough allocation is cyber in your sort of capital requirement? Has it historically been roughly in-line with premiums. And then I guess thirdly, which also follows on is, when you look at options to grow this book, what is the potential to sort of grow the premium number and not necessarily grow the capital requirement around great use of reinsurance, biting into someone else's balance sheet. What sort of options are you looking ahead, potentially capitalize on what might be a really attractive opportunity?

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thank you. I couldn't have phrased the question around diversification better myself. So, we've always tightened in terms of premium and never really confronted the sort of dynamics that we're seeing here before. And I think that is forcing us to rethink how we should do, -- how we should think about diversification. And we are doing that like right now because as you say when it's all done by rate change, the whole thing breaks down.

And I think, we will have some thoughts for you by year-end about how we think about diversification. And therefore, what we're going to do with the type of opportunity, I assume that there is one. And again, we'll share more about that at the year-end not going to share the details of how much capital is required for other business. And I sort of I kind of help you there, I'm afraid. And we are looking at different ways that we can capitalize on the cyber opportunity and you're right. One of the things we want to try and do is to make sure that we capture as much of that opportunity for ourselves, as we can rather than writing by for what other capital providers. Although as you know -- we do partner with the reinsurers and others if it were to make sense. So we want to make sure that, we kept as much as we can before Beazley for next year. That's important to us.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect. That sounds great. Just one follow up if I can. I mean, it sort of sounds like the risk potential that this sort of 15% to 20% threshold, but you've had historically might move. I know sort of you said there was going to be more guidance in the year-end, but there is potential for that.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Yes, I think there is both for the two reasons, one when there's a distinct and fairly rare opportunity to catch new business like this. We obviously need to think about that, on whether we do temporarily move from that and that fund but also an equally importantly, I think the way that we've historically measured diversification doesn't really stand up at the moment with the -- down we're seeing, so we have to think about it in a slightly different way but yes.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect. Thank you.

Operator

The next question is from Ben Cohen at Investec Bank, please go ahead.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Hello, hi there. Thanks very much, good morning everyone. And I had two questions please. Firstly on the catastrophe parts of the business in property and reinsurance, so just wondered, if you could comment as to how adequate you saw rates in general, and maybe as a side comment strategically just remind us, in particular, what the catastrophe reinsurance portfolio brings to Beasley apart from this sort of volatility you can see in years like this one, and the second question on the new ESG syndicate, that you're talking about, any sense in terms of how big that might become.

And I suppose does that help offset some of the sort of legacy fund of polluting industries that you, that you're insuring, I suppose particular on the marine side. Is there -- would we need to think about that syndicate in terms of offsetting a decline in other parts of the business over time. Thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thank you. Thank you Ben. Thanks for calling in. Rate -- on catastrophe exposed business is a very live question. And I think broadly speaking, yes more so on the insurance side, the reassurance side as we previously commented. However, I think we do need to update our tools, so that we can -- we can think properly and contemplate properly the impact of climate change, which we started to do. And that will obviously change both of them at a macro level and a granular level.

How adequate pricing maybe when we've done that work. Interestingly, we submitted a return earlier in Q3 on something called seaboard which did some -- was a climate change stress test for the insurance industry. And that has really helped us think about how to model and start to price for climate change, and we're using some of that -- those tools that we've built and bought to help do that. So, I'm encouraged by our journey there. The rationale for reinsurance on the property side, took a couple of reasons, I think it does help diversify our property book, both geographically. Our insurance book is very North American concentrated and our reinsurance book is much more diverse than that. But also in terms of -- because our property insurance business is very primary and our reinsurance. businesses is, is mostly pretty much 100% excess loss. So it allows us to manage our overall portfolio in a slightly smarter way having both those insurance and insurance options. So there's good reasons to have both leagues in our book. ESG, how big of an opportunity is over the long term? I think it's quite big we started out relatively small because we wanted to see whether it resonated with our clients and our brokers and underwriters, and to give ourselves a sort of mandate, target engagement, at times on ESG, because we had something available for them.

And I think that gives us that ability to start a conversation and to learn more about it and figure out how we can help in terms of new products we can develop services, we can offer and what is we can help our clients transition from where we are now to a low-carbon environment and that's very much the attitude towards the company.

So, rather than thinking about the ESG syndicate, offsetting this -- so polluting main business, what we're trying to do is usually, the new syndicate as a way, that we can learn to help our clients do that transition. It's all parts this is I don't think it's responsible for the insurance industry to turn it back on say oil and gas because we've gotten get from here to there, which we can't do immediately and that's really the gain of the new syndicate.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Great. Thank you very much.

Operator

The next question is from Derald Goh from Citigroup. Please go ahead.

Q - Derald Goh {BIO 20775137 <GO>}

Just a couple of question please. The first one is on cyber again I'm afraid. I'm just keen to hear about, if you could remind us what are the forms of reinsurance that you have in place? And also related to that, what are you hearing from your insurance counterparty? Can you give us a sense around the rate expectations or any changes in terms and conditions and things like that? And secondly, it's just on the COVID losses. However, the reserves that you set aside largely develop and also the exposure that you previously indicated for the second half of this year this has to assume that those have scaled up on now.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thanks for that. I'll deal with the second one first, if I may and we haven't said anything about COVID in RMS and that's because there's nothing to say and I think going forward we'll continue with that strategy.

So we'll update you when there's something to say, that is -- that our number remains unchanged as you say are everybody's running off now broadly speaking the world has opened up a little bit. And so at a total level things are going out pretty much on one expectations. And we will update as and when anything changes there. Cyber reinsurance, we buy both proportional reinsurance and excessive loss reinsurance. We've mentioned the systemic clash that we find before that program remains intact both of them, were able to buy some and then it's the coverage that provides remains relevant appropriate cyber and we will with these that we've managed to retain both I set the partnership so on the systemic and this is the last slide and on the bottom side, I think re-insurers who we're talking to are interested and engaged in the opportunity.

I think they're becoming more selective as to who they want to partner with and I think there's a story that we tell around how we're approaching cyber as a business and the ecosystem that we're building and that -- skills and tools you need to build a navigator changing pressure environment have resonated with them, and I think we got a good set of reinsurance partners who came to figure out how we can make the most of the opportunity to happen.

Operator

Our next question is from Nick Johnson at Numis, please go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi, good morning, everybody, two questions first the pricing, the rate running ahead of expectation. How much of that, would you expect to drop through to the bottom line and is sort of already in combined ratio guidance. Having to remind us on the timing of rates working through to the combined ratio.

And secondly, just could we -- perhaps have a quick update on the event cancellation, just wondering whether you are seeing business start to return in the events cancellations, do you expect that to be a growth segment next year. Thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Well, thank you. So continuing with those questions in turn when we look at excess rate compared plan broadly speaking and that's in part of our liability business in our size of business. So, that will take some -- more short sale, of course -- third party covers in this buybacks. But there is a large element to that and if there is excess margin there, relatively quickly, not this year, but grow relatively quickly. Of course, when we look at our capital, which we -- have solvency II basis and that may have some capital impacts slightly earlier than that as we recognize these things on a best estimate based rather than on potential basis.

But as far as the P&L is concerned, our earnings will be as early as I described. The event cancellation business is beginning to take off again, I think it's slower than we had hoped but it is beginning. And we are very hopeful for the next year and encouraged that we are also working with various initiatives with -- and the governments about trying to figure out how to provide clinical disease, coverage going forward because it's very important for that industry. If they can cooperate with conference have coverage.

And interestingly, we're one of the leaders in the government U.K. event industry reinsurance scheme, which allows communicable disease -- to be purchased and we've just written I think three new risks. And U.K. to support and we will help encourage to seek -- to regrow and should be an opportunity for us.

Q - Nick Johnson {BIO 1774629 <GO>}

Great. Thank you.

Operator

(Operator Instructions) We have a question from the Faizan Lakhani from HSBC. Please go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi. Thanks for taking my question. On cyber, there have been a lot of talk around cyber, sort of work you've done around but the industry pointing to a quite a large increase in severity, are you seeing any reduction in severity on your side. And the second question is that you bought a new Chief Underwriting Officer. Does that change your strategy or -- has he been brought in to look into things because. Thank you.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Thanks though. Have we seen a reduction in severity? It's a bit early to say that yet, we can see the frequency trends much more quickly than we can see severity trends because claims take time to fully settle. So I can provide less clarity on that.

And what I can say is that we haven't noted severity increasing in a way that we had last year, but as that I'm trying to begin settle more, I think we'd be able to share more about that in the future, but we haven't -- getting worse, that those which were expected. I think -- new CUO a change of underwriting strategy at all, I think it's always interesting to bring someone in from outside as different perspective, different experience. And I think that will help to continue to -- I am looking forward to -- so we haven't brought -- specifically to do a particular -- to drive particular change of direction there.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay, there's more of the same but sort of refinement I guess on the underwriting side

A - Adrian Peter Cox {BIO 16257010 <GO>}

Sorry say that again?

Q - Faizan Lakhani {BIO 20034558 <GO>}

It's more of the same but sort of refinement I guess on the underwriting side --

A - Adrian Peter Cox {BIO 16257010 <GO>}

Yes.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Great. Thank you very much.

A - Unidentified Speaker

Thank you. We have. we have a follow-up question Freya Kong at Bank of America, please go ahead.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, just another question, please. How are you guys thinking about potential ways and places in the U.S. market? And what you are all look at. Thanks.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Good question. We so we've been spending a lot of time thinking about inflation this year and relatively bearish on an inspection for a while now of course impacts all elements of our business underwriting cost and the asset side. And so we have put in specific and some loads into next year to contemplate inflation, I think it's impact our cost base, which we need to plan for and it does have an impact on the cost of claims and we have put in creaks closes came for both social and inflation into our business next year to compensate for that. But personally speaking, the center of operations for the business that we don't see the drivers inflation, particularly at next year. And so, we haven't planned for that.

Q - Freya Kong {BIO 20097488 <GO>}

Okay. Thanks.

Operator

This time we have no further questions on the call. I'll hand back to the team to conclude.

A - Adrian Peter Cox {BIO 16257010 <GO>}

Super. Thanks so much. Andy said, thank you everyone for calling in. And for the questions. If you have any further, please don't hesitate to contact. And we'll answer as much as we can. Once again, thank you very much indeed and have a good day.