S1 2021 Earnings Call

Company Participants

- Alex Maloney, Chief Executive Officer
- Darren Redhead, Chief Executive Officer,
- Jelena Bjelanovic, Investor Relations
- Natalie Kershaw, Chief Financial Officer
- Paul Gregory, Chief Underwriting Officer

Other Participants

- Andrew Ritchie, Analyst
- Ben Cohen, Analyst
- Daryl Goh, Analyst
- Faizan Lakhani, Analyst
- Freya Kong, Analyst
- Iain Pearce, Analyst
- Kamran Hossain, Analyst
- Ming Zhu, Analyst
- Unidentified Participant
- Will Hardcastle, Analyst

Presentation

Operator

Hello and welcome to the Lancashire Holdings Limited Half-Year 2021 Results. Throughout the call, all participants will be in listen-only mode and afterwards, there will be a question-and-answer session. Please note this call is being recorded.

Today, I'm pleased to present CEO, Alex Maloney; CUO, Paul Gregory; CFO, Natalie Kershaw. Please go ahead with your meeting.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you everyone. We will just over our presentation. Slide 3 please. In the half -- in the first half of 2021, we've got strong premium growth in line with our long-term strategy of capital deployment and expansion at this point in the underwriting cycle, as the underwriting opportunity grows. RPI remained strong across our portfolio of risks with premium growth rate healthily in excess of rate change, which demonstrates our business moves forward. We have executed the plan we articulated when we raised equity capital

12 months ago and then raised further debt in Q2 to fund further growth demonstrates an active capital management policy.

Our strong underwriting performance in the half year despite Winter Storm Uri. We have an excellent combined ratio with a strong underwriting profit and have reserve releases are benefiting from our robust reserving process. Winter Storm Uri loss estimates remain within our previously announced range and our COVID-19 loss estimate is stable with most of our -- with the majority of our loss estimates still be an IBNR. One of the most pleasing things that we've done in the half year is to continue to hire new teams and continue to build out Lancashire's book of business.

So lots of progress in high quality talent acquisition, the Lancashire bench strength has significantly improved and these new teams will bring pipeline organic growth for the 2022 underwriting year. On capital, we remained strongly capitalized and continue to put more capital to work. Our regulatory capital ratio was 254%, as at the 31st of March '21. As I said earlier, we completed a highly successful long-term debt refinancing project in Q2 and the surplus debt capital is available for further growth. Our interim dividend of $0.05 means that our dividend policy remains unchanged by 2021 earnings will be retained to fund further opportunity for '22.

In summary, we're deploying our strategy, building our business and we have the strongest bench strength in our history. I'll just now hand over to Paul.

Paul Gregory {BIO 16314515 <GO>}

As Alex has mentioned, it's been another strong quarter, bringing year-on-year growth to about 41% at the midpoint of the year. We're very pleased that we were executing our underwriting strategy of actively managing the underwriting cycle and delivering strong levels of premium and earnings growth in an improving market.

A combined ratio of 80.7% represents a very solid start to 2021, particularly given the heightened catastrophe activity during Q1. We obviously have the remainder of the year to navigate, but this puts us on a strong underwriting footing, as we start to see the benefits of the underlying rate increases feed through into underwriting profitability.

The writing environment remains favorable with more business hitting adequacy levels, albeit it does remain a market, where you still need to maintain underwriting discipline. Some subclasses have seen rate rises for numerous quarters now and the trajectory remains positive. As you know, we are strong believers in the insurance cycle, so it's inevitable that the pace of increase in some of these lines will slow at some point, so we continue to focus on the cumulative rate movement and rate adequacy.

Unsurprisingly and in line with the first quarter, most of the premium growth is derived from our property and casualty reinsurance segment. We had highlighted this segment as an area for growth, as we look to deploy the additional capital we raised last year. We've successfully grown our property catastrophe and retrocession portfolios over the past six months, growing with existing clients, starting relationships with new clients, and benefiting from positive rates.

Our re-insurance segment also includes our three new lines of business for 2021 being casualty reinsurance, specialty reinsurance, and accident and health. All three have started successfully and ahead of initial expectations in terms of the premium written. Last quarter, we guided to the top end of the $40 million to $60 million premium range for these three classes. Given the start to the first six months of the year, we are confident the top end of the range will be achieved and could potentially be exceeded.

As always, the underwriting will be driven by the opportunity and not any preordained premium targets. The other segment, we anticipated utilizing the additional capital with the property and casualty insurance segment and more specifically, the property direct and facultative subclass within that.

The growth in property D&F is always going to be more focused in the second quarter, the busiest quarter for this product. Utilizing both the Lloyd's and company platforms, we've successfully grown property D&F premium as rates continue to improve. The growth in property D&F is the driver of growth for this segment. Also within these segments, it's terrorism and political risks, the terrorism subclass is experiencing a more benign writing conditions, as it remains ample capacity that prevents any significant rate improvement.

The flat rate environment negatively skews the overall segment RPI. In both terrorism and political risks, we have been able to grow premium year-on-year. As we say every year, the first half is not overly significant for the aviation portfolio given the majority of this renews in the second half of the year. It is still, however, pleasing to see continued rate improvement and delivery of year-on-year growth ahead of rate.

We will remain alive to the obvious demand headwinds the sector could face given the aviation industry dynamics, but thus far our portfolio has managed these challenges very well. Our energy portfolio is experiencing different pricing dynamics dependent upon the sub-class, downstream, power, and liabilities are all seeing good price momentum and we have grown in all of these areas.

Upstream energy rates remain positive albeit in the low to mid single digit range and lots of business within this segment remains pricing inadequate in our opinion. Within upstream, we have not renewed some business, where we felt renewal terms were insufficient. The only segment of our portfolio that was reduced year-on-year is marine. This is down to two key drivers. Firstly, there were a small number of high premium accounts on either a non-annual or multi-year basis, not yet due for renewal. Assuming acceptable renewal terms, these policies were renewed later this year or in future underwriting years.

Secondly, there were a select few large premium accounts that we chose to not renew, as we did not believe that renewal terms based on performance of those accounts were acceptable. This just highlights that despite our stated intention to grow, we will -- we will still fundamentally believe underwriting discipline needs to be maintained.

In general, we believe the writing in our marine subclasses is the best it's been for a number of years and continues to improve. In light of that, we will certainly be looking to grow our marine footprint further where possible. To aid future growth, we've continue to add underwriting talent to the group, both in the existing lines of business and new lines of business.

Most recently, our new Head of Marine Liabilities has joined and just started underwriting. In addition to this, we expect to welcome at the end of this year a new Head of Energy Liabilities as well as a new Construction and Engineering Team, further to this, we have employed two underwriters who are based in Australia to expand our D&F offering in the region. You'll start to see the premium associated with these initiatives in 2022 and this along with the continued build-out of the other new classes will support our 2022 premium growth. As always, the pace of growth in these lines will be driven by the market opportunity.

I'll now pass over to Natalie.

Natalie Kershaw {BIO 21394441 <GO>}

Hi, everybody. I'm going to talk through some slides, detailing the overall performance for the half year with some additional flavor on the loss environment, our investment portfolio, and capital position. Our financial performance for the first half of 2021 is detailed on Slide 5. As Paul has noted, our strong gross premium written growth in the first quarter was maintained into Q2.

Our outwards reinsurance spend has reduced as a percentage of gross premiums written from 43% to 38.6%, as we retain more risk in the improving market. We are starting to see the benefit of increased net premiums on earnings coming through, which benefits our expense ratios and we are very happy with the overall combined ratio of 80.7%. The absolute increase in dollar terms in G&A expenses is largely due to higher employment costs, reflecting the new lines of business we have entered into.

Other income is higher than in H1 2020 due to more profit commission coming through from LCM relating to the 2019 underwriting cycle. The overall change in fully converted book value per share of 3.4% was negatively impacted by one-off cost due to the debt refinancing in H1. These costs totaled $18.7 million, of which $12.8 million related to the direct redemption costs for our existing senior and subordinated debt.

The remaining one-off costs largely comprised open interest payments, prior to the original that being redeemed plus some of the incidental financing cost. These costs were one-off that have given us a simpler and more efficient capital structure for the future. As a reminder, our new subordinated debt has the benefit of regulatory eligibility and is also at a fixed rate protecting our financing costs against any future rates inflation.

Slide 6 please. Slide 6 details our loss ratio performance H1 2021 and increase of reconciliation back to the underlying attritional loss ratio of 38%. Excluding Winter Storm Uri, the first half of the year was relatively quiet from a loss perspective, resulting in a loss ratio of 38.4% compared to 57.4% for H1 2020. It is worth noting that the unusual run of risk losses that we saw across most segments and geographies in 2020 did not continue into the first half of 2021. For Winter Storm Uri, we followed our usual Cat loss reserving procedure that brings together representatives from across the business and assesses potential exposure on a policy-by-policy basis to come up with an overall estimate for the group.

The favorable prior year development for the half year $53.6 million was positively impacted by the release of two large risk claims from the 2016 year on prior in our favor as well as releases across the 2017 Cat losses. Conversely, the 2018 and 2019 accident years, so some unfavorable impact of prior year claims. As we've noted before and given the lines of business that we write, we can have lumpy quarters or even half-year numbers.

The remainder of the releases largely occurred due to the reduction in IBNR on the 2020 accident year, due to a lack of reported claims coming through. The waterfall diagram on this slide illustrates how we think about the underlying attritional loss ratio. As mentioned last quarter, our traditional specialty lines such as marine and energy are exposed to irregular larger losses such as tank sinking or explosions and so on, which are unpredictable in nature and have always been excluded from our attritional ratio guidance. We classify this type of claim greater than $5 million as a large loss. As mentioned, the first half of 2021 has been relatively quiet for risk losses. So we haven't seen a material impact from this type of claims so far this year.

Slide 7 illustrates a relatively conservative portfolio structure with an overall credit rating of A plus. We aim to invest in largely low risk, short duration, and liquid investments as well as taking more risk on the underwriting side of the business. So far in 2021, our investment performance is marginally positive at 0.3% overall return. The fixed-income portfolios have been negatively impacted by the steepening of the yield curve with some of our risk assets performing well to offset these losses. We do not intend any material changes to our investment strategy in the medium term and we'll keep the overall portfolio duration short to help mitigate inflationary impacts. We are looking to increase our allocation to floating-rate assets, again to mitigate potential inflationary impacts.

On Slide 8, the workflow chart shows how our regulatory capital position has developed since the end of 2020 incorporating the impact to the debt raise and new business in the first quarter of 2021. Most importantly, this diagram shows that we still maintain a strong regulatory capital position following a one in 100-year Gulf of Mexico wind event. As mentioned last quarter, we expect our BMA solvency ratio to be comfortably over 200% going forward, dependent on market conditions.

And I'll hand back over to the Operator.

Alex Maloney {BIO 16314494 <GO>}

Okay, fine. So just to summarize on outlook. Our core strategy has not changed, will not change. We firmly believe in the insurance cycle and we'll continue to navigate the cycle and manage our business for the long-term. I think it's important that we -- I think Paul said earlier we are incredibly focused on rate adequacy and the majority of our portfolio seeing 3 to 4 years of of rate hardening and all the time adequacy is there, we're going to grow our business, we're in a strong position to do that. We have the capital and as we said earlier, we've been employing more -- more and more very good people to come to our business.

So we believe we're in a very strong position, we will grow. I think the growth for us as well, if we believe in our strategy that we do take, less risk when market conditions are difficult, it's equally important that we grow now and we believe over time that's what will give us a better return for our business and improve our returns over the longer-term cycle.

So I think we're balanced, we're positive about the opportunity, but we do believe that as we go into '22, we've -- with the teams who are bringing in the opportunity, be say there's going to be further growth coming through '22.

So we'll now go to the operator for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions). Our first question comes from the line of Kamran Hossain from RBC. Please go ahead, your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. Two questions, the first one is just I guess rate doing really strong were on 3 or 4 years of as you said of prices going up, what's the message to underwrite at the moment, you're still going to push as hard as they can or are you willing to kind of ease off slightly and just take a bit more volume.

So that's the first question and the second question is I guess on the the G&A expense ratio, which has improved pretty substantially year-on-year or compared to the full year 2020 run rate. Could you give us an idea of kind of what that should look like as you continue to grow. I think you've talked about one to two points benefit coming through, but that's clearly been -- were there any one-offs or is this just an acceleration given the very strong topline growth so far this year. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

So I think the message to our underwriters is that we want to grow as the underwriting opportunity improves. I think the point of clarification is if you look at our product lines and what we've consistently said about this market opportunity is that some classes of business are better than others and we have got classes of business that are 150% of adequacy and we've got our classes that we would probably I'll give are not adequate enough. So it's all about making sure that we -- we're putting heavy expansion into the classes of business that are the most profitable and the classes that still require some attention, when moderating our view there. And I think we have consistently said that about this opportunity. We haven't subscribed to this is the best market we've ever seen, but it's materially better than what it was and I suppose the beauty of our business is the line of sight we have as Management is we cannot push our underwriters in the right direction.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Kamran, it's Natalie. On the G&A question, what we've said previously is that we expect some increase in premium to give us a lower G&A ratio in line with 2016, 2017. And we're now currently seeing the benefit of that premium coming through and around in line with 2016, 2017 ratio, I'd expect us to stay around that level for this year and into next year.

Q - Kamran Hossain {BIO 17666412 <GO>}

Let me just clarify that, so that's sort of kind of the sub 20 G&A ratio?

A - Natalie Kershaw {BIO 21394441 <GO>}

Yeah. That's around 20.

Q - Kamran Hossain {BIO 17666412 <GO>}

Brilliant. Thanks Natalie.

Operator

Thank you. Our next question comes from the line of Freya Kong from Bank of America. Please go ahead, your line open.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, thanks for taking my questions. First question, just a clarification point on the dividend comment you made earlier Alex. You said, 2021 profit would be retained, is that just in excess of the regular dividend that you pay. Second question, how should we think about the rate, the really effective rate increases that we're seeing through into the attritional loss ratio over time. And just a third question, if possible, on the new hires that you've announced that will be draw in 2022, how should we think about the expense growth outlook from here. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Yeah, on point one, that's exactly what I was saying. So any -- any earnings in excess of our normal dividends will be retained for growth into '22.

A - Natalie Kershaw {BIO 21394441 <GO>}

So on the attritional ratio, we're keeping the guidance 35% to 40%. As we said before, we are reserving conservatively for the new lines of business that we're entering into.

A - Alex Maloney {BIO 16314494 <GO>}

And sorry Freya, what was -- could you clarify the third question, please.

Q - Freya Kong {BIO 20097488 <GO>}

How should we think about the G&A expense growth I guess in absolute dollar terms rather than the ratio, because it's impacted by how much growth coming in.

A - Alex Maloney {BIO 16314494 <GO>}

We don't tend to give out dollar numbers for hires that we're making. But I think we probably refer you back to Natalie's answer to Kamran on kind of forward-looking G&A ratio, but sorry we don't just tend to give out dollar numbers for new hires that are coming in.

Q - Freya Kong {BIO 20097488 <GO>}

Okay. That's fine. And just following up on the rate question that I had. Now that I guess most of the premiums for 2021 has been written, how should we think about that any through into next year.

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes, I wouldn't say most the premiums this year have been written. We are anticipating further growth in the second half of the year, which will be mainly in the specialty lines. I don't know if Paul wants to add anything on that.

A - Paul Gregory {BIO 16314515 <GO>}

Yes, Natalie, I mean, the obvious area that's is up for renewal in the latter stage of the year is the aviation portfolio, which is now a reasonably material part of our overall portfolio. So there's certainly and it's also 1st of July renewals that will come into Q3, so whilst we all premium heavy in Q1, sorry, half one, there's certainly a fair amount of income still to be written in the second quarter.

A - Alex Maloney {BIO 16314494 <GO>}

And then for '22, we expect to grow for '22 again, obviously that will be driven by how good the underwriting opportunity is.

A - Jelena Bjelanovic {BIO 16398596 <GO>}

Freya, sorry, this is Jelena, just to come back to you on rate increases earning into the attritional loss ratio next year. So you have already seen that from last year to this year, if you look at the underlying loss ratio, you have seen the benefit of rate comes through. It takes us roughly about 12 to 18 months to earn the rate through on exactly the same book of business. But given the level of growth we've been seeing and as we talked about with our Q1 presentation, in terms of the changing business mix, it's very hard for you from the outside to track that in the attritional loss ratio.

Q - Freya Kong {BIO 20097488 <GO>}

Okay, thanks.

Operator

Thank you. Our next question comes from the line of Iain Pearce from Credit Suisse. Please go ahead, your line is open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for taking my questions. Couple on retrocession spend, just in terms of how we should think about the retro spend in H1. If we say you will need the core program with rates up sort of 10% to 15%, it's the remainder of that retro spend coming from new teams and then sort of following on from that thinking about retro spend for 2022, I mean if the plan to renew the core program again, what are the expectations around rates and retro and similarly, how do you expect the retro spend on the new teams to develop going forward. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Hi Iain, I'll take that. Yes, look, I think if you -- I'm assuming when you say retro spend, you're assuming all of our reinsurance spend, I will answer it. Yes. So, yes, we definitely on some -- on some parts of the business had to pay up, because that's -- the market's going up, so you've -- some of the increased dollar spend is obviously associated with rate. You've then got the spend associated with the new teams. But what you also have is when you're growing your portfolio, there's increased spend associated with that increased exposure, just like we have clients of ours that increase our exposure year-on-year. There's premium associated with that increased exposure.

So the kind of increase in dollars is made up of those three parts, but as we said earlier in the year. We expected the dollar amount to come up with the proportion versus the premiums to reduce, which is exactly what happened. Looking into 2022, in terms of how we are going to buy that's the kind of decision, we won't make until we come through wind season. We'll see where the market fits. We're always going to buy large chunks of what is our core programs, because you know that's part of the reinsurance program that we tend to renew you pretty much every year. But in terms of overall strategy, we tend to look at that later on in Q3 and come out with a plan for 2022, assuming the market continues as we expect it to, we would expect to see that proportion of spend continue to reduce into 2022, but obviously we will revisit that later in the year when we know underlying market conditions are like.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect. And just -- on following up on the new teams as well, are you buying sort of higher levels of reinsurance on these new team expect that to reduce, are you expecting to run with sort of the current levels of reinsurance going forward.

A - Alex Maloney {BIO 16314494 <GO>}

Each team will be different and there will be different levels of reinsurance purchase. We don't necessarily by increase levels of re-insurance just because it's new teams, but what you do get is the proportion effect, where you have to buy a reinsurance program, which costs us a certain minimum amount of money and obviously, you haven't got them with income to start, which proportionately is always quite high in the early years when you're building out, but I wouldn't say that necessarily reflects us trying to overprotect it need on the business.

Q - Iain Pearce {BIO 19522835 <GO>}

Perfect. Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Ritchie from Autonomous. Please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there, could you just update, Paul, I think you talked about expected premium from new teams, I got on the call slightly late, I mean I think specifically in reinsurance, you've given the figure in the past of $40 million to $60 million, I think you suggested it would be at the upper end of maybe just update on that number. I think that $40 million to $60 million was for various specialty classes in reinsurance. Second question, obviously when we talk about attritional loss ratio, we kind of need to think of it also in terms of reserve releases that might result from a conservative attritional booking. I was quite surprised to see the extent of 2020 accident year releases in the first half, because I saw on some of the newer business, where you're booking some of the more attritional less cash-heavy business, it was -- it was a longer seasoning pattern in more like 12 months to 18 months, not sort of 6 months maybe could you just clarify how should think about that.

Sorry, two other questions, I can see in your updated PMLs, the growth in the 1 in 100-year and 1 in 250-year exposure, can you just qualitatively give us a sense as to what's happened on more frequent return intervals, 1 in 50, 1 in 20, I'm just trying to understand the shape of the book. If the growth has been shaped because of the higher -- the lower returns or is the lower -- 1 in 50, 1 in 20 done similar types of growth.

Final question, just update on LCM of third-party interest, where sort of you're seeing potential flows with respect to third-party capital given that market seems to have somewhat picked up again.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, Thanks Andrew. I'll take -- yeah, I'll take the first one and then the third one on PML. So yes, we've guided on -- so on these three kind of new lines of this year, which were casualty reinsurance, specialty reinsurance and accident and health, our initial guide was $40 million to $60 million, last trading update, I said we are reasonably confident we'll be at the upper end of that. If you jumped on the call late, you'd have missed in my scripts, I said, we're very confident of achieving that top end and could potentially exceed that top end of the range. Obviously, we'll be able to give a more of the same update later in the year, but the start on all of those has been really positive. So we're obviously happy with that.

I'm afraid, on the PML just had quite sure down stuff and Jelena would -- he'll make -- we don't publish the 1 in 50s and the 1 in 20s, so unfortunately, I can't answer that question.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi, Andrew. I'll take the reserve releases question. So there has been no change to how we run off in particular the attritional IBNR from previous years. And actually the release of the attritional from the prior year was relatively similar last year, it was just masked by some one-off larger claims that had adverse development on them. So I wouldn't say that this year is particularly any better. It's just that last year the run-off of the attritional IBNR was kind of masked by one of risk losses. Does that make sense?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Yes, I still thought some of the newer business, especially still small, which had the sort of longer or partly because it's newer, partly because I think it's not going to short tail. That's why I was thinking it would be some drawn lengthening as it were of the recognition pattern.

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes, but you're right the impact of the new business on 2020 wasn't particularly significant.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

A - Natalie Kershaw {BIO 21394441 <GO>}

So you're still really saying on the 2020 year, most of our kind of traditional business coming through this year, the majority of the new business lines have been written this year and into next year.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Darren Redhead {BIO 17995744 <GO>}

Hi Andrew, it's Darren. Regarding your question on mid-year and increased appetite from [ph]ILS investors, it's a couple of comments. We just completed at mid-year draw from last year, which is a similar amount. Regarding others, which haven't seen a demand or an increased demand from investors appetite, I think it's a bit of where people getting funds released from prior years from COVID potential claims that they've had additional capacity to draw -- I think it's a bit of a one-off.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So you're not expecting more party capital deployment in the end -- in aggregate this similar amounts you said.

A - Darren Redhead {BIO 17995744 <GO>}

I think similar amounts, yeah.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So in other words, there is an even -- just on that topic, there's a big disconnect between broader ILS appetite versus the -- what we've seen in the capital market, which I know is just a fraction of the ILS.

A - Darren Redhead {BIO 17995744 <GO>}

Yes. The capital market has its own dynamics and you've seen tightening in the pricing and we would take it offline and go through that.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

Operator

Thank you. Our next question comes from the line of (inaudible) from J.P. Morgan. Please go ahead, your line is now open.

Q - Unidentified Participant

Thank you and good morning -- good afternoon, everyone. Just a couple of questions I have is I mean possibly get some thoughts on the recent European floods, I mean, do you have any exposure to those, I mean what sort of course could be there, any thoughts on that would be great.

And secondly, like if I look at the Property Capital reinsurance, I mean the exposure is now going up, it's more than 50% of your total book, it was 40% last year, I mean, what is the level where you would be okay to go with, I mean is it okay even if it's like 60% - 65% or would you say, I know you don't want to go into that -- those sort of levels, because clearly it looks like this is an area where you are looking to grow going forward as well.

And thirdly is with your capital that you have, I mean how should we think about how much you can grow next year, I mean, let's say, the rest of this year remains benign, i.e., earnings are all right, there is no major hiccups, so how should we think about the potential GWP growth for next year. Again given that, most of it most likely is coming from the property cat business. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Hi. On the European floods, obviously we write property cat business and have European exposure within that. So it's certainly an event that we would anticipate having some exposure to. At this early stage, all the information we have is anecdotal, so look, we can't give any numbers based upon that, but that's something we look at as we get -- start getting real information from clients and we'll obviously give an update on that later in the year.

In terms of property cat percentage, I think one, you should always look at the full year in terms of looking at the percentage, because obviously property cat is very heavy in the first half of the year and we answer the question similar earlier there is a lot of other business to be renewed during the course of this second part of the year.

In terms of, is there a hard stop on any percentages, we've never run the business in a way where we have preordained percentages for any line of business, the way we look at it is where do we think we can get the best return and if that meant that there was a great opportunity in property cat and our percentage of premium in that area increase if we saw the returns were there, then that's what we would do.

Conversely, if there was opportunity elsewhere, we would have no problem, reducing the percentage. So it's just driven by the market opportunity that we see in front of us and what returns that can produce for us.

A - Natalie Kershaw {BIO 21394441 <GO>}

Yeah. I'm going on to the question three. On the capital, it's kind of similar to what P.G. has just said that we've said we match the capital to the underwriting opportunity that we see, so we will bear that in mind going into 2022. But also it's worth remembering that the recent underwriting hires we've made those that started this year and those that where we'll see more impact into '22 that predominantly in lines of business that need very little capital charge. So all that element of the organic growth, we can actually achieve with very limited additional capital. And then, as Alex mentioned at the start and Paul, we are expecting to retain most of our earnings in excess of the ordinary dividend to help fund any future growth into next year.

Q - Unidentified Participant

Sure. Thank you. Just like a one follow-up on the previous question about like there is no bar for any say proportionate business et cetera, I mean how do we think about the cat budget then 15%, because clearly there are other reinsurers, who are now talking about, okay, they need to review their cat budget, because climate chain maybe it's real four years in a row then we had Uri, then we had German floods, which are just unique secondary perils, so I mean how do we think about your cat budget of 15%. I agree that you will make a lot of money on the attritional side if you write a lot of property cat, but should we need to rethink about the cat budget or would you say 15% is still a very good number.

A - Alex Maloney {BIO 16314494 <GO>}

So I think we can't comment on other carriers and their actions and their view of climate change et cetera and obviously, we -- we don't see ourselves as climate change experts, but we're definitely experts in the world of assessing risks that we insure and the capital we have to allocate for those and I'll get paid appropriately. But look, just to echo what Paul said, we're driven by opportunity, so if we believe the opportunity in our cat business or our non-cat business is great, we're going to grow the opportunity, but obviously factoring in our view of frequency and severity and all again paid for the capital we're deploying.

So, and lastly, a lot of that market opportunity will be driven out of this year's hurricane season and we're not even at the peak of that point yet, so that would be premature to try and make those kind of assumptions for next year.

A - Natalie Kershaw {BIO 21394441 <GO>}

In terms of -- just to jump in and in terms of the cat budget, we don't have one as yet, so the 15 points is the historical average combined ratio burden in any given year. It's never -- we have never had a stated cat budget.

Q - Unidentified Participant

Okay, okay. Thank you.

Operator

Thank you. Our net question comes from the line of Ben Cohen from Investec. Please go ahead, your line is open.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi there, thanks very much for taking my questions. I had -- I had a few questions, I'll keep them brief. In terms of the outlook for new teams, could you just recap in terms of the new hires that you've announced today and maybe give some indication in terms of how you see them contributing into next year. The second question was on the reduction actually on the acquisition cost ratio, which has come down, I know it varies quite a lot by different lines, but does that gives a good a good run rate going forward.

And the third thing was just to follow up on the German flood point, I don't think you've quantified. A lot of European catastrophe exposure in the past, so I was wondering if you could help us sort of put in in context what the potential loss could be there given the lack of a track record for your business in terms of exposure. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, Ben. So yeah, on the new team, so we've recently hired a new Head of Marine Liabilities, Marine Liability is something that we have underwritten, but it's an area that we think we can expand into and Stella has recently joined and started underwriting, but in reality you're going to start seeing the premium in 2022. We've also hired a new Head of

Energy Liability again, an area of the book that we've had relatively small exposure to a market that's moving forward quite nicely, so it's an area that we can grow our presence.

We've also hired a construction and engineering team, which again they will join later this year and then the last one I mentioned was we've hired two underwriters to expand our D&F offering in Australia. In terms of premium numbers, what we'll do is we'll revisit that and give some guidance a bit like we did this year for the three new lines that came in the 1st of January later in the year, one that's because these underwriters haven't actually joined us yet, they join us later in the year. We'd obviously look to see how market conditions play out but what we look to do here is give you a similar range to what we did this year on the lines of come in recently.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi, Ben. On the acquisition cost ratio, as you know it is highly influenced by the business mix and as this year, we've got a significantly higher proportion of the property business that's helping the ratio. It's also worth noting that you tend to get better terms and conditions in the harder market, you tend to see a lower attritional rate acquisition cost ratio in this type of market anyway, I think the next year, as Paul just said, we can update later in the year when we got more of an idea of what we think our premium business mix will be next year, that would obviously influence what the acquisition cost rate is as well.

A - Alex Maloney {BIO 16314494 <GO>}

And just going back on the Euro floods Ben, obviously as I said to previous question, it's not something that we can provide any kind of range on at the moment, very early and all the information we've got thus far is anecdotal, but obviously we'll be working through that in Q3, we have always had European exposure and if you kind of look up PML. PML, there is -- there is a PML for European cat risk included within that, it generally falls within our property catastrophe portfolio and that's both within the Syndicate and the Bermuda platform.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry, just to follow-up, can you remind us the last material European catastrophe event that you had and size that?

A - Alex Maloney {BIO 16314494 <GO>}

We haven't really had -- we can come back to that offline, Ben, but I can't recall anything that we've -- that have been big enough to be public.

A - Paul Gregory {BIO 16314515 <GO>}

Yes or anything material.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thanks very much.

Operator

Thank you. Our next question comes from the line of Faizan Lakhani from HSBC. Please go ahead, your line open.

Q - Faizan Lakhani {BIO 22154809 <GO>}

Good afternoon. Congratulation on a good set of results. I just had a few sort of follow-up questions, most of my questions have been answered. On the operational expenses, obviously that's been sort of increase due to the additional hires, just wanted to understand, obviously the hires that have come in between the half year, how much would be true run rate be if they were to start in January '21.

The second question, it's on the attritional loss ratio. Given that you've written $40 million to $60 million potential premium, how much of that attritional loss ratio is down to conservatism that you've put in, I'm just trying to understand as you right newer business, what sort of drive would be on the attritional loss ratio.

And the third question is on the larger losses and you've had a few half years now, where you've had sort of unexpected large losses that don't fit in the catastrophe bucket or the attritional bucket, I understand that you run through in nature, but should we be allowing for a low for those large losses. Thank you.

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes, on the large losses question, as you know, it's just part of the business that we write that we do have these occasional large and unpredictable losses that we can't really give any guidance on. As P.G. said, we're not going to comment on the G&A impact of the new hires, but we obviously expect the expenses to be higher next next year than this year, given that the announcements that we've made.

And then on the attritional ratio, I think we've answered enough questions on that now, I think you just need to keep the guidance for the moment, 35% to 40%.

Q - Faizan Lakhani {BIO 22154809 <GO>}

Okay. Thank you.

Operator

Our next question comes from the line of Daryl Goh from Citi. Please go ahead, your line is open.

Q - Daryl Goh {BIO 4258857 <GO>}

Good afternoon. Thanks everyone. So few questions please. The first one, I guess just sense of clarification around the unchanged attritional guidance, I know what you're saying about the conservatism in new lines, but is there any conservatism that you're assuming within property lines, given the short-term inflationary pressure, I mean I know there's a comment in your slide saying that you've had a loading -- you have an inflation loading in your cat model maybe a sense around what the loading is please.

And the second question is just going on the outlook, so you sound pretty confident in the outlook given that you still plan to build out the teams at this stage and that also you intend to retain your earnings to deploy into next year, so conscious that your focus is on rate adequacy rather than rate momentum. What gives you confidence in the sustainability of the very favorable market conditions now? Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

I think that we do consider inflation on our cat models, that's something that's already built in, but obviously we don't -- we don't give you that number, but inflation in any harder business is considered, so that will always be factored into the numbers that we get the market. I think -- I think on the outlook, I do think this year's wind season is key and I think that I think if you have a benign wind season, I think the momentum in rate change obviously slows quicker, because that will mean the carriers have made decent margins. So you'd expect competition to increase, but I think you have to look that way you are. I mean even if that happened and even this market is moving flat, you've had four years of rate change, so you've built back up to a central level of market pricing and for us, we just see that as an opportunity with the build out that we've had at Lancashire ever since the market got better, the teams that we're bringing in and you see it from from some of the changes that we brought in 3 or 4 years ago, all of a sudden they've got a $50 million book, they've got a $75 million book and the build-out continues.

So that's why we are confident to stay abstinent, whatever happens actually in the rate environment, we're still going to grow into '22, because we've got the pipeline of new teams coming through and the maturity levels of the other teams will add to that. So that's why we're maybe bolder than we normally are on growth into '22 at this early stage.

Q - Daryl Goh {BIO 4258857 <GO>}

Great. Thanks. Thanks a lot.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Ming Zhu from Panmure Gordon. Please go ahead, your line is open.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good afternoon, everyone. Thank you for taking my questions. And just two questions please. My first question is that you are very upbeat on the growth into the full year and 2022. Would you give a split between how much of that will come from the rate and how much of that is more organic or the business you're adding on.

And my second question is on your tax rate, it looks bit high for the half year, is there any one-off there, what are you guiding going forward, giving other business costs you're adding on. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So I think -- I think the first question and again, as we concluded demonstrate by these results is you've got your RPI rate of 11%, so if our business was only growing at 11%, my view is that we're not actually making any progress. So there is a very nice gap between our actual growth rate and the RPI changes that you're just seeing and we believe that that continues into '22.

Now we wouldn't give you a number today, because we don't know, but we would also always remind everyone, which we always say, if the underwriting opportunity is greater than we expect, we're going to grow more and if the underwriting opportunity is weaker than we expect, we're going to grow less. But the point I keep coming back to is, I think kind of whatever happens to the rate environment, we're grow in anyway, because you're going to see the benefit of the investments that we've made at this point. And as Paul said, even for the people that are currently in our business, it takes time to build these portfolios out and some of these people that we've employed are not even here, but we can that pipeline coming through for us.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Ming, it's Natalie. On the tax, yes, you're right, there was a one-off charge in the half year, so this is a one-off charge of $3.7 million and it related to the increase in the UK corporation tax for 2023 to 25%. So we have to apply that increase to our deferred taxes, which resulted in that one-off expense, so you can remove that one-off expense as you think about tax looking forward.

Q - Ming Zhu {BIO 17001429 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of (inaudible) from Berenberg. Please go ahead, your line is open. (Operator Instructions). Okay. We are going to the next question. So our next question comes from line of Will Hardcastle. Please go ahead, your line is open.

Q - Will Hardcastle {BIO 16346311 <GO>}

Hi everyone, just a really quick one from me, I guess the PMLs have increased as we would expect with the opportunity and we talked about market opportunity earlier. So just trying to reflect that in to see where we are in the current status, you're increasing these by somewhere between 60% to 80% versus the full year.

So maybe that reflects the opportunity, but if you can quick comment on that. But I guess more importantly, what sort of percentage, I remember going back a decade or so that you used to talk about when the market is at its absolute peak, we would be X percent of our tangible capital exposure to a 1 in a 100 event. I guess, do you still think like that and therefore, where do we think we are relative to history and opportunity. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

So we -- we definitely think the same, so nothing has changed there and just in simple terms and if you're in, I know 6 on to market, we're going to deploy everything we've got. But I think as we've said we're not -- we're not quite there yet. So I think again it will be based on opportunity, I think we've been super clear about our view of this current opportunity, which is materially better than our market was, but we haven't been in the view of the cheerleaders of the market and it's the best thing I've ever seen, because that's factually incorrect.

So look, our view hasn't changed and again, our view of '22 is we've got a lot of good things going on in our business and a lot of investment that we see that's going to come through, but it'll always be based on the underwriting opportunity and I do think this year's wind season is absolute key to where this goes.

And as you would know, Will, better than anyone really, investors want evidence of our game better, so people need to whatever happens for the rest of the year, people need to remain disciplined and show to their stakeholders that we can make some decent margins for the risk businesses that we are in. So look, all in all, we're balanced on the opportunity, our risk levels will always be matched to the opportunity, nothing's changed the way we think. And if you do end up in a market that's the best we've ever seen, then you should expect us to think about capital and all the things you'd expect us to think about.

Q - Will Hardcastle {BIO 16346311 <GO>}

Right. Thanks, Alex.

Operator

Thank you. We have no more questions from the line. I'll hand it back to speakers.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you very much for your questions today.