S1 2020 Earnings Call

Company Participants

- Andrew Horton, Chief Executive Officer
- Richard Montminy, Head of Property
- Sally Lake, Group Finance Director

Other Participants

- Andreas van Embden, Analyst
- Andrew Ritchie, Analyst
- Ben Cohen, Analyst
- Iain Pearce, Analyst
- Kamran Hossain, Analyst
- Ming Zhu, Analyst
- Paris Hadjiantonis, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for joining us for the Beazley Interim Results Call. My name is Chad and I'll be the coordinator for this conference. (Operator Instructions)

I would now like to hand over to Andrew Horton CEO to begin the call, please go ahead, Andrew.

Andrew Horton {BIO 5697110 <GO>}

Thank you. Good morning everyone and welcome to our Half Year Results Presentation. If I move onto -- go to the disclaimer and move on to the first slide in the presentation, it's going to be the usual Beazley half year presentation in a slightly unusual format. Sally and I are sitting here in the office for the first time since March 17th and we have a special guest who's Richard Montminy who is our Head of Property who is based in New York. So, Richard is joining us pretty early in the morning.

I'm going to give you an overview and business update, I'll then hand over to -- the financials to Sally, who will go through the usual performance, investments, reserves and our capital position, then we we are going to go into property in a bit more depth with Richard and then come back for me to the outlook and then over to questions.

So if I go into the overview. I've got to say it's probably the most unusual half year that I've been involved in at Beazley over the past 17 years because there is so much going on. Obviously, we have been working remotely from about March 17, when everybody within the company started working remotely and fortunately we've been working on remote working for a number of years. So, technology and people seem to be in good shape. Talk about that a bit more in a second.

We're in a hardening market and that's been talked about quite a lot, but we have this unusual thing of a recession. So we've hardening market into recession, which means we've been taking some evasive action in some more recession prone lines of business, while trying to grow in the areas where we are seeing good rate increase, having seen rate decreases across a number of lines for a number of years.

We've also seen a bit of an investment roller coaster mostly in our investment return, and it was $83 million, but that was actually negative territory than Q1. So gross premiums written were up 12% and that's with rate increases of 11%. We've seen some good rate increases in, what I'd call, our more traditional lines and Richard will accept that in Property and Marine, but also good rate increases in D&O, an area we want to grow.

We've had a number of management discussions and Board discussions about gross premiums were only up 12%, when we've seen rate on renewals up 11%, and therefore, why isn't the growth more than that? And I think that's linked into a couple of lines of business we withdrew from last year in marine, UK marine and the trucking business and also the fact we're taking some evasive action on the more recession prone lines of business.

The loss is $13.8 million and obviously we're bearing a $170 million of COVID-19 claims, which we announced in April and that number we're still comfortable with. That's delivered a combined ratio of 107%. Sally will go through the prior year reserve releases, which are at a much healthier level of 58.6 compared to the 3.4 last year. She will also take us through the -- what's happened on the investments. And not surprisingly, we are not declaring an interim dividend as we mentioned that when we did the capital raise, raising the $292.6 million net of capital for growth in 2020, 2021 and beyond.

So a brief business update. Growth across six of our seven divisions. The only division that didn't grow was the reinsurance division. We didn't see the rate increases across the reinsurance division over the past two years and the early part of this year to warrant growth, although we have seen the reinsurance division's rate increase starting to pick up with the Florida renewals on June 1 and then onto renewals on July 1.

The market facilities business, which we talked about before, which we split out from our specialty lines division and that's what's created the seventh division, we only retained 10% of that and it's mainly a third party fee generating business, which is relatively small at this point in time. It is not material to the overall group.

I mentioned we raised a capital and that was to fund planned growth opportunities both this year, next year and beyond and Sally will go through our capital surplus in a bit more depth in a minute. And from a people change point of view, it's quite nice to just announce one people change, but we've had quite a few people changes over the past few years, and we've got Bethany Greenwood, who joined us last autumn, taking over from Mike Donovan as head of cyber and executive risk. Great, that she's taken over, it's also good that Mike is formally retiring at the end of the year. So there is a reasonable amount of handover and he is going to be still involved in the company thereafter.

COVID-19, of course, has dominated a lot of things over the last quarter. As I mentioned, we've been successfully working with everyone from home. We are slowly opening the offices, we have opened in Singapore, Munich, Paris, London and Dublin, although we have very few people in the London office. We can normally fit 700 in. We're operating at potentially 100 and I think about 20 is the maximum we've had in. We are not forcing anybody back into the office if they don't feel comfortable. We've opened the offices because some people are finding it difficult working from home.

We've managed to do new things, which has been great over the last quarters. We recruited a new product recall team based out of the US, which is great and also launching and growing our virtual care business. Not surprisingly, virtual care in this environment has taken off. There are more medical appointments taking place remotely and we launched the product in the US in 2017, we've launched in Europe and Canada over the past year or two and that product is really growing.

I mentioned the $170 million announced in April, it's still a good number for us. So the event cancellations and other parts of the PAC division being at $70 million, property, marine and reinsurance being at $100 million and we're starting to determine work on what our liability claims will be and Sally will go through that in a bit more depth in a minute. It's very difficult to determine what the liability claims are because we've had very few so far and it's also going to be very difficult to determine what is the COVID-19 claim, and what is the COVID-19 recession caused claim.

And as I mentioned, we've been taking underwriting actions to try to minimize the potential of the recession. Luckily last recession is we've been living memory of Adrian, Sally and I and therefore we looked at those lines which are recession exposed and have been working on some of those over the past couple of years, and we believed the recession was on the horizon and of course COVID-19 has accelerated that. We're ensuring we are trying to minimize and mitigate the impact of the recession on our book of business.

Right, I will now hand over to Sally who'll take you through the financials.

Sally Lake {BIO 20925273 <GO>}

Thank you, Andrew, good morning everyone. My name is Sally Lake and I'm the Beazley Finance Director. As Andrew mentioned, I'm going to be taking you through investments, reserving with a particular focus on our liability business and then finally capital before I hand over to Richard.

Just before we go into those, just a quick look at performance. Andrew mentioned most of these areas. The one I wanted to mention in addition is to explain the difference between the very, very good gross premium written growth and that's actually a bit low than net and that's for two main reasons. Firstly, as we told the market earlier this year, we bought some additional reinsurance for specialty lines and CyEx and we -- that also impacts that -- this relationship between gross and net there. Additionally to that we also are paying reinstatement premiums for the clash reinsurance that we're using to cover some of our event cancellation claims within the PAC division and that also affects the difference. So they're the two main differences there, so I just wanted to point out those two.

If I then move on to investments, and I think the first half of 2020 is definitely a game of two halves. It's been very volatile and quite exciting at times. Now, the overall number of $83 million does not tell the story of what Andrew, me and our CIO Stuart Simpson has lived through so far this year. We ended Q1 after a couple of really good months. March, as everybody knows, was a very challenging month and we ended in a loss position for the first three months. And then what happened? Well, in April, given what was happening with government intervention throughout the world, investment market started to make a turn and so, we cautiously started adding some risk to our portfolio. And within doing that we definitely remain cognizant that there were still a lot of risk of a second downturn and but despite that we still were happy to out risk because we were seeing really good returns in some areas, and that led to a second quarter return of just under a $140 million adding up the $83 million.

So where does that leave us? So if you look at our usual donuts, you can see that at the end of June, our portfolio was still in a relatively conservative place compared to the normal place that we are, because we remain cautious about the possibility of a second economic downturn. So we have put some more risk back on, but we are definitely not back to where we were in recent memory.

The other thing to note within our investments is that given what's happened with interest rates and throughout the world so far this year are running yield on our core portfolio and so the fixed income part is definitely yielding a lot less than it was at the beginning of the year and the running yield is now just below 1%. So we're not expecting as much income from that portfolio given that the yield is lower.

So moving onto claims releases, and we're definitely seeing a return to a more normal release pattern in the first quarter. So you can see that we've released just under $60 million with specialty lines cyber and executive risk and reinsurance contributing most significantly. Reinsurance, it's worthy of note, they've definitely seen some positive movements within their past catastrophe estimates which they've been able to reduce during the last six months. Property and PAC saw small strengthening, but generally speaking, a total that we're very happy with.

So that's what's happened in the first half of the year. What do we think about the outlook going forward?

So on to one of my favorite graphs and just sit back and remind everyone what we're doing here. (Technical Difficulty) I'll keep going. Just to remind everyone, what this graph is aiming to do. So at Beazley, we have a consistent and prudent reserving strategy where we start by holding more claims than we expect to use and then over time as those claims crystallize, we start to release our claims margin as it appears.

Now, to ensure that we are consistent, we compare this number to a bottom of actuarial estimates to ensure that we're having the same levels of prudence over time. And when we do that comparison, as long as a difference between those two numbers is within the 5% to 10% corridor that we show here, then we are happy. And as you can see, we're pleased to see that a continuing positive picture remains here, with a surplus at 7%. Now, it's worth noting that over the last couple of years, we've been choosing to open specialty lines and cyber and executive risk higher and that's definitely paying off here. And one of the reasons we did that was that we were very aware of the risk of a recession going forward, so that also places us in a good place and for what's currently happening.

Now, I've got a couple of extra slides just to add to a bit more context on the liability claims. So we thought it would be interesting to give a bit of context of how we think about reserving in our liability book given the current situation is going on. And so, as Andrew mentioned, Adrian, myself and Andrew lived through the last recession. I was doing the reserving back then as well, so we've not only lived through it, we were definitely part of the situation. So I think it's worth looking at that. It's not the same situation we're in at the moment, but I think that looking at what happened there and how we approach things might be helpful to give context and to what's happening at the moment.

And this graph is showing how the claims that we started, we've moved over time and the years that will triple by the recession. And if I take 2008, we opened with a consistent strategy as we've just spoken about compared to the actuarial and we're very happy with that number. Now, as I say, we hold a margin within that number and then as those claims crystallize, we release any margin that's available.

Now as you can see, over time we haven't released a great deal of margin from 2008 because as those claims crystallize they were actually higher than we expected them to be because during 2008, we weren't fully aware of what the outcomes were going to be of the recession that followed.

However, it's worth noting that even though less reserve releases came and we weren't able to take those numbers down significantly in 2008, more so in later years, we also did not need to strengthen our opening claims position, which I think is worthy of note and that shows the benefits of having a reserving strategy like ours, where you start with more money than you expect to need and then wait to see how those claims emerge before you start taking any profit out of those years. I pressed pause. So the other thing that we wanted to mention is that in addition to continuing to reserve like that, we've also been buying some reinsurance for a while now, that's also relevant to this discussion.

Now, we are very aware of systemic risks that businesses that we write have and so in order to help protect against that, we've been doing two things. The first thing is, as Andrew mentioned, we've been actively amending how we underwrite our business in these areas because to remind everyone, all our business is written on a claims made form and so any claims that come in the future will be based on underwriting that we're doing now. So we have a great deal of control as to how much risk we take on going forward as we walk into a recession and that's a really important point

In addition to that, as well as reserving prudently, we also have some reinsurance that we've been buying since 2014 and what this reinsurance does is where our opening claims number needs to be increased because of what we're seeing as claims come through, we actually have protection that kicks in soon after that number increases, and for 2020 that number is estimated to be around $10 million, so not a significant increase in order for that reinsurance to start reacting.

After that point, we have about $140 million of cover, based on -- depending on how our premiums end up, of which 20% we take -- we keep that risk and 80% is for our reinsurance partners. So in summary, we've got a margin that we always hold. We've started re-underwriting where we think we need to given the situation and then we also have this reinsurance in place should we need it as these claims emerge.

And then finally before I hand over to Richard on to capital. As we've already mentioned to the market, we've done a number of capital actions this year. Firstly, we raised just under $300 million of equity back in May in order to support the growth that we're seeing and we also extended our banking facility from $225 million to $450 million and we chose to post after that at Lloyd's to help our capital position.

So, what's happened since we did both of those things? So we've definitely continued to see the market moving as Andrew has already mentioned and we therefore feel more positive about our growth opportunities for the rest of the year and very specifically into 2021. So as Adrian is spending time looking at the business plan, he is definitely seeing more opportunity for growth than he was earlier within this -- within the year. What does that do to our capital? So because we talk about our capital number at the end of this year that is fully based around what we expect to grow next year. So when we are looking at these numbers and seeing more availability of additional growth, the capital requirements are increasing and that is true for both our Lloyd's capital requirement and our US admitted capital requirement as well. So both those numbers have increased since we've done our capital action, which is the reason that we did, so we're very happy that we're able to see opportunities in order to deploy that capital.

The other thing that's worth noting is within our Solvency II adjustments, we have started making allowances for liability claims on the back of COVID and recession because we think that's a prudent thing to do and so we have also made adjustments for that as well.

So those two things together, along with the capital actions we've taken lead us to a position of a surplus of 22% compared to our Lloyd's economic capital requirement, which is right in the middle of our 15% to 25% target range. So we're in a really good position to be able to capitalize on this market and so we've -- we're feeling really good about the opportunities ahead of us.

On that note, I will pause and pass over to Richard to say more about our property.

Richard Montminy {BIO 21066233 <GO>}

Thank you, Sally. Good morning, everyone. Hopefully all are well. My name is Richard Montminy and I lead the property business across Beazley. Being that I've been at Beazley a fairly quick 14 months, I thought it might be helpful to provide just a quick overview of my experience. Prior to coming to Beazley, my insurance career started about 30 plus years ago with a fairly even split between the carrier and broker sides of the equation. I started my journey with -- various roles and responsibilities with FM Global then I moved over to Marsh and spent solid 16 plus years in various roles there. And then the last five years before coming to Beazley, I was leading Zurich's North American Property Team. So with that, let's get to my slides, there we go.

So let's talk a little bit about the Property Group and we'll start with our property book vision and strategy. Our goal is to become and be recognized as the highest performing specialist property insurer. And to achieve this, we feel that we consistently need to perform for some of our key stakeholders, one being our customers and brokers and we need to continually provide relevant capacity products and services. The second being our investors and management. There, we need to provide sustainable profitable growth. And last but not least, and of course, to accomplish both of the above, we need highly engaged colleagues. So with this in mind, let's get a little bit into our structure.

So, at Beazley, how we have the property structure? As you can see in the graphic, we perform, or we operate across six platforms, starting with London, of course, we cover Latin America through our office in Miami, Singapore, the United States, Canada and China, via the Lloyd's China platform.

And across these platforms, as you can see in the chart, we really divide ourselves up into four focus groups, which have about nine property businesses within them. And to just give a little context around that, if you start on the right side, as you can see, we have commercial property, that makes up probably about 69% of our business right now and that ranges from small and mid-market business up through the large unit, and also inclusive of our US high value homeowners team.

And then as you work your way down the spectrum, we have two other, I would call, more specialized businesses, one being our Jewellers, Fine Arts and Specie team, they're based mainly out of London and then aligned with them, we have our U.K. homeowners team as well as our Swiss portfolio, and they make up about 15% of our overall portfolio.

And then finally, we also have a delegated or coverholder, if you will, business based out of London, aligned with, we also have a package, a small package team, we've put those two units together, but the package does work across all our property as well into our SL lines to help enable other business but that makes up about a total of about 16% of our portfolio.

As I mentioned above, we need to grow profitably, while providing relevant capacity products and services. So to help us consistently do this, we need to focus on several areas, one being portfolio optimization. To do this, we look to provide our underwriters with enhanced tools that enable them to make insightful decisions and support -- supported by analytics. By doing this, we're able to better manage the effectiveness of our pricing terms, nat cat aggregates, at both in account and the portfolio level. So it's very important on how we manage the business there.

We also work actively with our key broker partners, and by proactively, I mean, we meet with them on a regular basis to discuss market dynamics approach, et cetera. We're also providing a consistent message to our key brokers on our appetite and access. And this focus solicitation clearly defines to our broker partners, our ability and desire for the business we want to write, and by doing this, we feel that our -- by soliciting the business that we want, we have higher hit ratios and we're really driving the portfolio that we want to have at the end of the day.

Also as mentioned above, our underwriters are key and they need to be empowered, and we feel really by providing them with the enhanced tools and analytics, training and additional support as needed, one area of that to help them achieve this is we continue to constantly improve and enhance our rating tools. This is essential as providing them with this tool, it gives them the metrics and details available, so the underwriters can make smart informed decisions around pricing, of course, how cat is going to impact the book as well as the rating around it for pricing. This ultimately should result in better results and risk selection, which should drive the overall result of the portfolio.

Another area that we look at it is that for the above to be -- continue to be successful is really we need to have consistent improvement in tech and processes. Effective property underwriting is highly dependent on it and we have ongoing initiative called Faster Smarter Underwriting, which is bringing together some of the latest technologies so underwritten can make informed insightful decisions. The key to this is really having real time accurate data tools and analytics available for our underwriters, which enables them to enhance their decision making, and of course, improve our underwriting performance.

And then finally, another component of our overall growth and success is really we feel important on the efficient use of capital. A recent example where we've done this in property is that our large property team developed a consortium in London late last year, which enabled us to bring in various London and European markets to support us, which the key there is it really helps Beazley become a key player for our key brokers in the London marketplace. In some cases, we're a go-to-market in that regard because we can lead and provide again relevant consisting capacity for their programs and their customers.

So as we look at 2020 year-to-date, it's the market has been very favorable, we expect premium growth to continue throughout the year, the rates have been strong. I fully expect the rates to remain strong in the double-digit capacity, which is good. The thing that I always try to remind people, obviously, keep in mind that going into the '17 and '18, we have five years of reductions in the marketplace, which was -- made the property marketplace quite tough, but coming out of '18, as we started to see the market turn and then in '19, as many of you know, it's really started to turn, which has been good. Retention on our core business has been key and we continue to see that, continuing to improve.

When we look beyond, I think it's important to keep in mind that we fully expect to see continued favorable terms, including pricing, for the balance of this year and into '21. We just have to, I think, be diligent around how we look at business. There is a lot of business being circulated in the marketplace, and the teams need to use all the tools and abilities that we have to, again, focus on the best risk selection and core business we want in the portfolio, which we've been, I think having great success there and I really feel that we're going to start seeing the results start bleeding through the book, as we continue to work forward.

So with that I will pass it back to Andrew, and for the outlook.

Andrew Horton {BIO 5697110 <GO>}

Thank you, Richard. I will have a go at the outlook. I got to say, the Beazley crystal ball is a bit cloudy than it normally is. It's quite difficult to determine what the outlook is going to be, and that's why the planning process at the moment. We know Adrian is leading a great planning process with all of our underwriters, claims and everybody else. It's time to determine where the opportunity is to grow up and where the opportunity is to hold back, and we're putting a lot of thought into that.

But the view, and Richard touched on it within property, is we believe rate momentum is going to continue. We're certainly seeing that in the first six months of the year that the rate increase each month is greater than the previous month. And our conversation within the market with brokers, it seems that this is going to continue into 2021. So we believe we can maintain the double-digit top line growth in 2020 and then into 2021 and that's what uses up some of the capital that Sally talked about a few minutes ago.

Aim is to try to mitigate the impact of COVID-19 as far as we can. So taking this action on our liability classes. Combined ratio for the year, we normally give guidance at this point in time, assuming we have an average second half. Whatever an average second half looks like will be around 100%. Lower investment return in the second half, just based on the running yield of the portfolio, and a lot of the things I'm sure will happen other the running yield, but based on the running yield the portfolio to be a lower investment return in the second half, great momentum, as I say, to continue.

And then just final point about the agile, nimble approach, and it's on a number of levels, the people, fundamental to the success of the company over the past three decades, we continue to focus on the health and well-being of everyone, we need to manage that as well as we have done over the first three months of this unusual environment, and as the environment changes, of course, we're surveying our people on health and well-being and their views about the future and that's important to us.

And we've also done a couple of key appointments, I think in the first half. One is a sustainability officer looking at the impact of climate change on the insurance sector and all things to do with ESG, so our sustainability officer will help us bring that altogether. And also innovation, the rightful talk [ph] in our corporate development team is recruiting a couple of people on innovation. Innovation is important and Lloyd's has liked it, and can roll-out 2% of extra premiums next year on innovation without a formal approval process and innovation is at the center of the success of Beazley over a number of years and we need to continue to focus on that.

From a product point of view and that leads to the innovation, we need to pivot our products to meet the changing world, and I just flagged here virtual events. The virtual element of events were sort of a tag on to our physical events, and of course, virtual event cancellation cover is just as important because many events are taking virtue in cost of setting up those events and there will be cost if they are cancelled or don't work if the technology doesn't work, which is the key element for the virtual events.

And then on servicing, service is incredibly important and has been important in the first half of the year both on underwriting and claims. And from the claims element, our aim is to pay claims well, both COVID-19 claims and other claims because many of our insureds are under some form of financial distress. And we had an action in the first half of the year to ask people who had time to support the claims team. Not surprising, they've seen more claims related to COVID-19 and we wanted to ensure our claims service remained high and I get good feedback from brokers. Both Adrian and I have been on virtual tours of the US talking to brokers, we get good feedback that our claims service on our claims offering is holding up well compared to the rest of the industry. So that is a good thing to do. And I think it would be an area on the back of which we can win business in 2021.

So that's the end of the presentation. We now go to questions.

Questions And Answers

Operator

(Operator Instructions) So, our first question today comes from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, Andre. Hi, Sally. I've got three questions. The first one is just on the capital surplus, and I guess, the reduction from $35 million to $22 million, so $35 million being at the time of the placing. Could you maybe give us an idea of how much of that is kind of prudent that you've built in around recessionary claims or COVID -- additional COVID claims later on? And your ECR increased a $100 million, the total decrease is probably something like $300 million. So is $200 million the right number for the recession claims?

The second question is on cyber, you didn't make any mention of ransom, or not one that I could see, but then I apologize my screens are a bit smaller these days. Could you maybe comment on frequency there? Some of your peers I have talked to have definitely seen this as a bigger issue.

And the third question is, I guess, looking forward, 11% rate for the first half, far higher than that in the second quarter. I guess as we look to 2021 and perhaps beyond that really, is it a good bet to think that the things have to be better than the long-term average in the coming years on the combined ratio? Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Sally, do you want to pick up the first element, and I will pick up the second two.

A - Sally Lake {BIO 20925273 <GO>}

Yes, I'm just writing it down. Sorry. So, yes, good question on the capital. So, as you can see, we've increased both the ECR expectation. We've also increased Beckey [ph]. Beckey is slightly less capital efficient, so -- and than the Lloyd's at this point and so what you're seeing there is a bit of a capital strain caused by Beckey as well. So those two things together are definitely part of the movement from 35 to 25. There are other things other than some allowance for recession in COVID within there. So the allowances that we made I think you mentioned $200 million, it's not at that magnitude. There are other things in there, I would say, it's not significantly smaller than that, but it's an evolving picture on a Solvency II basis, so it's not as simple as those two things or other things going on there as well. But the main story, I think to focus on is the fact that we're deploying the capital that we raised because the market continues to be a really good place to grow in.

A - Andrew Horton {BIO 5697110 <GO>}

Okay. So let me pick up the ransomware, I mean I think we were one of the first companies to notice elevated ransomware. I find it always a bit frustrating that people don't even notice what's coming on the claims and I think having a very good integrated claims and underwriting groups means that the -- when claims see things they tell the underwriters what's going on. So we see how elevated ransomware about 18 months ago and we haven't seen an elevation or further elavation in the first half of this year to stay at the same level that we've seen during 2019, because it was this concern there will be more ransomware tax in this environment, we have not seen that yet.

On the rate increase, I'm not sure -- I hopefully I'm answering the question, we do expect this momentum to continue into 2021 because there doesn't seem to be anything at this point in time that's likely to stop it and it's on the back of relatively poor profitability of the industry and a number of years of rate decreases across many lines. So I think on the back of that, we are expecting these rate increases to continue. And if we look at the property business that Richard was talking about, we're still not at the level of catastrophe risk appetite we are willing to take five or six years ago on a smaller balance sheet. So we still think these lines have momentum into next year.

Q - Kamran Hossain {BIO 17666412 <GO>}

Good, and thanks very much.

Operator

The next question we have today is from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hello, hi there. Good to see everyone virtually. A couple of quick questions. So, first of all, just to clarify on the capital requirement, is all of the increased requirement, the projected requirements growth? Was there any reflection of, I think Lloyd's, the other day was talking about capital planning, where they were going to increase the capital load to reflect low interest rates and some certainty on the outlook? So just to clarify, is there also volume or is there some sort of tail efficient [ph] of capital charge increase?

Second area. I wonder, Andrew, could you just update on underlying, I'm talking ex-COVID, if that's possible, claims drivers? Obviously we had a lot of discussion second half last year around so called social inflation and all those factors. I guess some of that is on hold, probably just on hold. Maybe just give us a sense as to you're seeing anything new emerging or where you feel you are?

The only other two quick questions. On the liability, you said you have $10 million below attachment. I think the attachment was -- sorry, the deductible was about $35 million. So does that mean you actually have seen some liability claims to date or am I misinterpreting that?

And the only other question would be on the property book. I don't know if I can ask a specific question on that. You gave a useful presentation. I'm curious to know, do you feel that property pricing is adequately reflecting the sort of trend you've seen in secondary caps? I'm talking on storm hail, not the peak stuff, the secondary stuff, which has caused quite a lot of noise. Are we anywhere a price adequacy on that aspect yet?

A - Andrew Horton {BIO 5697110 <GO>}

Okay, Andrew. Thanks for those questions. You're going to kick off with the capital, Sally?

A - Sally Lake {BIO 20925273 <GO>}

Yes, I'll do the capital and reinsurance question. So on the capital, that's really good question, we have an internal model and we've reflected the things that Lloyd's are already talking about and their additional capital and their thinking around needing additional capital within that. So all of that should be built in. We haven't made any assumptions around them changing the usual capital load at this point because they haven't clarified anything around that book for a good example of why the -- there is more than just recession and growth going on is that for example discounting credit has reduced because in Solvency II, you can discount your reserves and obviously the interest rate by which we discount has significantly reduced. And so that's another area, that's another good example of where we are seeing a change since we raised the capital back in May.

A - Andrew Horton {BIO 5697110 <GO>}

Just make sure, there is small load indicative [ph] of growth outside the ECR. You want to understand [ph] that.

A - Sally Lake {BIO 20925273 <GO>}

So, and one thing that just happened on the Beckey [ph] is calculated using a risk-based capital approach, and it has various components. One that I'm just referring to is that you have a additional load if your growth rate is above a certain number, which we are and so you do have an additional load in for that that's worth noting, yes.

Q - Andrew Ritchie {BIO 18731996 <GO>}

That's on the US RBC component.

A - Sally Lake {BIO 20925273 <GO>}

Yes. So that's the US admitted, which is within the numbers there, but that's one of the reasons why you're seeing a significant shift in that number.

And on to the reinsurance, I've obviously confused you a little bit, the clash number I think is what you're referring to. The reinsurers that we're speaking about is not the clash cover, it's in addition to the clash cover. So this isn't the risk of getting too technical, it's an aggregate excess of loss program that we buy in addition to the clash cover. It doesn't have a deductible. The way it works is, it starts to react above a certain claims ratio, which we've obviously estimated that to be kicking in around $10 million in terms of dollars, because I think dollars are the simple -- dollars are simpler, but it's different to the clash, no deductible there.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And that's on all liability lines, is it? What was the old specialty book?

A - Sally Lake {BIO 20925273 <GO>}

That covers the majority of specialty lines and cyber and executive risk, it's doesn't cover everything, but it covers the majority and it definitely covers the things that we're more worried about in situations like this, for a good reason because we've all lived through it.

A - Andrew Horton {BIO 5697110 <GO>}

Andrew, I'm going to give you a sort of a relatively boring answer on the underlying current drivers, because we haven't seen anything. So there is nothing new in the underlying claims drivers excluding COVID-19. So there are no unusual trends, no different trends taking place in the first half, it's sort of as we expected. So nothing unusual in that.

And then I hand over to you, Richard, on the adequacy. I think you're asking about the adequacy of pricing for the non-cat part of property.

A - Richard Montminy {BIO 21066233 <GO>}

I think -- Yes, Andrew, I think he was looking for the secondary cap pricing, if I understood the question right?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Exactly.

A - Andrew Horton {BIO 5697110 <GO>}

Yes, sure.

A - Richard Montminy {BIO 21066233 <GO>}

And it's a great question and definitely we are highly involved with it. We've enhanced our radar so the underwriters can pick-up on locations and accounts that, for example, of hail, that are exposed to hail and we price for it. So we do price down apparel specifics. The other area, we also attack things like hail and some of these other secondary cap perils is through our terms and we actually have been doing well in that regard as looking for a different deductible structure i.e. percentages as hail has become more and more prevalent across the industry, as you're aware of. Case in point, this year, there has been the hail season, so to speak, if you want to call it that, we've actually been able to significantly reduce hail losses that we've seen in the past through the use of deductibles in better terms. So it's a great question and we are on top of it from that regard.

Q - Andrew Ritchie {BIO 18731996 <GO>}

I just understand the industry, either as a whole, more committed to dealing with pricing this risk, which kind of wasn't -- didn't seem to be priced at all even a year ago or a couple years ago?

A - Richard Montminy {BIO 21066233 <GO>}

I mean, you're probably right in that regard, I think having worked in other shops as well, I think it's been on everybody's radar screen to pick up things like hail because it became more and more of an issue. And like I said, I think people have been pricing forward for a while, but I think it used to just be buried in with the AOP deductible and really what the industry has turned to slowly. I think some of us like Beazley, we've jumped on a quicker, have gone to a different structure just to attack and take get rid of the small frequency losses i.e., through percentage deductibles kind of like what we do with windstorm and earthquake, et cetera.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, great. Thanks, everyone. Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Thanks, Andrew.

A - Richard Montminy {BIO 21066233 <GO>}

Welcome.

Operator

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

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. Thanks very much. I just had two questions please. If you can hear me. The first was on the COVID-19 casualty claims. So I just wonder if you could say more about what notifications you're actually getting? And does your outlook for sort of 100% combined ratio for this year assume that you would take all COVID-19 casualty claims in 2020?

The second thing I wanted to ask is, your outlook for top line growth for the year as a whole, does that assume any impact of a sort of recessionary headwind on volumes? And indeed, did you see anything that's worth calling out from that in the first half of the year? Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Okay. So the COVID-19 casualty claims, I mean, we -- they're going to come through over a period of time, Ben, so we're not going to -- it's unlikely we're going to see lots of them happen all at once, and the time to settle casualty claims, as you know, takes quite some time. So we're expecting these are going to come through over a period of time and also settle over a period of time. So our 100% does assume we'll book whatever we need to book in that line. And as Sally mentioned, the held loss ratio is relatively conservative and we only have a $10 million deterioration before reinsurance kicks in anyway. So, it shouldn't have a meaningful P&L impact if we did see a large enough deterioration to have to move the held loss ratios. So the 100%, yes, does take account of that. We haven't seen very much yet. So it's very difficult to answer the first question because we haven't actually seen many COVID-19 casualty claims yet. So I think that question, we will be able to answer better at the end of the year than we can now.

The top line growth for the full year, it's a combination of seeing this underlying growth in property with the rate increases Richard was talking about and similar increases in marine and increases in some other lines of business such as D&O and the reinsurance business looking a bit healthier than it was. And of course, we've seen increases in contingency offset by the recession prone lines where we are pulling back. And the top line growth, we are talking about, that being double-digit takes all those into account and we feel pretty comfortable when looking at those we can achieve that.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay, thank you very much.

Operator

The next question is from Andreas van Embden from Peel Hunt. Please go ahead.

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

Hello, good morning and thank you. Just had three questions, please. First of all, on your investment portfolio, you mentioned you were taking on more risk again in the second quarter now so that your high yield exposures have sort of increased at $269 [ph] million. I just wondered whether this was an active investment back into high yield or whether this was driven by sort of problem angels [ph] from the BBB or higher classes?

My second question is on casualty reserving, just in terms of your loss picks. I appreciate that you've been sort of increasing your loss picks in past few years. I just wondered whether you would comment whether you had continued to increase those loss picks during the first half of 2020?

And my final question is, I noted in your release you've implemented a 60-day premium pause for your clients and also some suspension of policies. I just wondered whether this could lead to some increases in your impairment assumptions on policyholder receivables. I saw insurance receivable sort of default [ph] assumptions had already increased in the first half, is just a coincidence or linked to those 60-day premium pauses and other actions you're taking to support your client? Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Sally will start that on [ph] high yield? So -- sorry go ahead.

A - Sally Lake {BIO 20925273 <GO>}

Yes, go ahead, please.

A - Andrew Horton {BIO 5697110 <GO>}

No, I wasn't sure exactly what we were looking at on the high yield front. So we're not seeing an increase in high yield because we've got downgrades of investment grade. So we definitely haven't seen that, if that was part of the question, Andreas, which I think it was.

A - Sally Lake {BIO 20925273 <GO>}

I think it's just one of the ways that we've chosen to increase our risk from where we were at Q1. So I wouldn't read anything specifically into that other than that hit. I know Stuart is definitely thinking very deeply about the level of liquidity and the risk that he's adding and so he is adding where he is able to change quite quickly. So I don't think there's anything significant to add to that.

A - Andrew Horton {BIO 5697110 <GO>}

And I think a high yield and equity exposure as at the end of June is less than it was at the end of December. So he took it down in the first quarter, and he's bought it back a bit, but it's still lower than where we ended last year.

On the loss picks, the loss picks being higher, I mean, one of the reason -- one of the challenges we have comparing them year-on-year was the mix of the business is different and because we've put some cyber -- the cyber within CyEx and there is some small risk side within the specialty lines, it often looks as though the overall loss ratio is coming down. So we feel, excluding that, we're increasing the loss picks on the more traditional, people call that specialty lines over the years and we will be maintaining that into 2020. But overall, it looks like it's coming down because the cyber proportion is larger.

A - Sally Lake {BIO 20925273 <GO>}

Yes, so we -- our 2020 view at this point is consistent with the previous couple of years.

A - Andrew Horton {BIO 5697110 <GO>}

Yes. And the premium pause, I think we are thinking about taking an impairment assumption through a premium pause because if we're getting people longer terms to pay the premium, we will have to put an impairment assumption in. I think we've got one in, we will be continuing -- one in for the full year. It's not a particularly large number at the moment because it hasn't been in place for that long. We haven't seen a massive amount of -- what's the word, no redemption.

A - Richard Montminy {BIO 21066233 <GO>}

Policies.

A - Sally Lake {BIO 20925273 <GO>}

Default.

A - Andrew Horton {BIO 5697110 <GO>}

Stopping policies.

A - Richard Montminy {BIO 21066233 <GO>}

Cancellations. [ph]

A - Andrew Horton {BIO 5697110 <GO>}

Yes. Sorry, did you miss that or did you hear that?

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

Thank you very much. Yeah, no I got it. Thank you very much.

A - Andrew Horton {BIO 5697110 <GO>}

Thanks.

Operator

The next question is from Paris Hadjiantonis from Exane BNP Paribas. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi from my side as well. It's good to see you all, even if it's virtually. Three questions from my side. Firstly, I'm trying to understand better what the message is on liability reserving. So basically, what you're saying is that if you're right, you got the reserves right and over time, you should be able to release some. But I mean, does that mean that we might have to wait a bit longer? So does that mean that in the near term reserve releases are actually lower than they were historically for the liability lines?

The second is on the reinsurance you're buying. There are a number of different effects there. You're buying more. You have paid the reinstatement premiums and probably you are paying more as well given where the price is going. I'm just -- I just want to see how much the cost of reinsurance has gone up for you? Is it in line with the wider market or do you benefit from the good track record that you have?

And the last question relates to property. So I'm just trying to grasp what the expectations on growth are. Rate increases are up 15%, and you're guiding for growth of about 15% going forward. So more or less you are not really growing volume, you are growing with the rate on that line of business. So if you can just clarify that. And also I think in the slide, you were saying something along the lines 15% growth. I am just want to make sure that you don't imply 15% growth for full year '20 because H1 was more or less flat. Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Richard, why don't you pick up on the property question, if that's okay.

A - Richard Montminy {BIO 21066233 <GO>}

Yes. I mean, it's a good question. I mean, rate has been the driver. I think what kind of gets a little bit lost in the shuffle as we started off the year continuing to improve the portfolio. So the teams have been strictly focused on making sure that we retain the business we want to retain, get new business into the portfolio that we feel is aligned with our thinking around appropriate pricing in terms and conditions so it's more sustainable over the long-run so we've been kind of trading out the portfolio. if you will. And that coupled with the rate increases that we're seeing, as the year has worn on, you're right, we're probably roughly flat.

When I -- when we look at the year-over-year growth, we still feel that we'll be somewhere around that 10% to 15% plus give or take percent range because we do see the second half of the year as being probably a higher growth rate than we saw in the beginning of the year. I mean, it's a tough question, because of the -- also then throw on top, not to get too technical with it, our cap management and how we've been managing the cap through the cycle of the first six months of the year.

Does that help, I mean?

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

It does help. Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Okay. So, if I go in reverse order, are we paying more for reinsurance? I think we do benefit from having strategic reinsurance partners and a good track record, on the whole, we're not paying a lot more for our reinsurance. If we are impacting the reinsurance programs and we've definitely impacted the clash reinsurance program, it's highly likely we will end up renewing with a reasonable rate increase, because the ones that are impacted we are taking -- we're getting -- we will be paying higher rates. But I think generally, for our property business and our buying retro program for our reinsurance business, our marine business, because they performed relatively well compared to the market average we do benefit from that.

And then on the reserve releases, it's always an interesting one of a longer to wait or not because in theory, everything else being equal and holding the reserve strength, it should come through proportionately. Well Sally, I don't know, if you want to add anything to that?

A - Sally Lake {BIO 20925273 <GO>}

Yes, so again coming back to the fact that it's too early to see what the overall impact is going to be and the fact that we do a lot of underwriting action. If you look, the other thing that I would add is that if you look back at 2008, and again I'll say it again, this is not 2008, this is 2020. But if you look back where the claims were impacted, you definitely saw a reduction in reserve releases from the specialty lines as it was divisioned back then, but it took a number of years to come through, because if you remember the way that we reserved specialty lines and CyEx is that we hold our reserves and then start releasing them after we begin the releases really three years is the early time we would release and then they slowly come through after that. So for example, the reserve releases, we're reporting here are from years like 2017. So it takes time for that to come through, but again currently we don't know how much that will be either, so we're going to have to wait a little bit longer for more clarity on that.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thank you very much.

Operator

The next question is from Ming Zhu from Panmure. Please go ahead.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning everyone. Just three questions please. Your investment return going forward, you've guided, and you've said your fixed asset currently yielding around 0.8%.

And if you will keep the same strategy going forward, is there any guidance you could give from 2021, please?

And my second question, you've seen a 11% rate increase across the book and you expect the rate momentum to continue, and just how much of that is because of COVID-19? I'm trying to figure out if it's a non-COVID year, normal year, how much that would be, please?

And my third question is on the lack of credit, the $225 million, which you're currently using is on liquidity. And if you were to meet, let's say, we have a normal second half, you were to meet all your target, and what's your plan around that, please? Thank you.

A - Sally Lake {BIO 20925273 <GO>}

Okay. So looking at 2021, if I knew the answer, I would be very happy. It's too -- in my opinion, it's really too early to give much more than the fact that interest rates are pretty low at the moment. And I think the general expectation is that they will remain low for a while. Obviously, in addition, you have the volatility around as well. So I think I would struggle to really add anything to the fact that we're relatively cautious and our running yield is 0.8%. Andrew, I don't know if you have anything to add?

A - Andrew Horton {BIO 5697110 <GO>}

I think if we were looking -- we're estimating 2021, and coming to the number, I've put 0.8% into the fixed income and I put it an unusual [ph] 5% or 6% of the risk assets, which is what we try to achieve, if you did a weighted average of the 5% to 6% on 2015 and 0.8% on the rest, you'd end up with what we would probably be budgeting for our investment return in 2021.

And 11% rate increase interestingly caused by COVID-19, I haven't really talked [ph] about. I mean, COVID-19 I think because the industry is going to be bearing the losses and therefore it's not that we're making profit this year gives further momentum that it needs to make profit at some point. But I'm not sure we can allocate much of the COVID-19 to the 11% rate increase. I think the market needed the rate increase before COVID-19 ever came along, and when we did our Q1 rate increase, we were already getting 8%, and we had lockdown for a quarter. So I think the COVID-19 losses has just given further momentum for a market that needed to turn and get rate increase. So it's quite hard to determine going forward what that would be underlying. I don't think we'd think of it like that.

A - Sally Lake {BIO 20925273 <GO>}

The middle -- there was a middle question.

A - Andrew Horton {BIO 5697110 <GO>}

I think that was it.

A - Sally Lake {BIO 20925273 <GO>}

Have we covered everything there, Ming or have we missed one there?

A - Andrew Horton {BIO 5697110 <GO>}

The letter of credit.

Q - Ming Zhu {BIO 17001429 <GO>}

So it's letter of credit.

A - Sally Lake {BIO 20925273 <GO>}

Okay. So, well, the great thing about our letter of credit is that it's a very flexible tool, which is why we like it, and so it really just depend on the experience over the next six months, but it's definitely something that I'm very keen to utilize as and when it's appropriate to do that. So the current capital ratio that we've got there assumes that we stick [ph] at $225 million, well it's based on having $225 million post it, and obviously depending on how the growth goes, how the business planning ends up, because it's still a very live situation there once we get more along that process. We'll be looking at our surplus and depending on where that sits, we would look to either remain where we are, or change the amount depending on what -- where we end up. So we'll keep looking at it as we go through the year. I think there is definitely something we are planning to use to some extent going forward.

A - Andrew Horton {BIO 5697110 <GO>}

Okay. Are there any more questions?

Operator

Yes, we have a question from Iain Pearce of Credit Suisse. Please go ahead, Iain.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, everyone. Thanks for taking my questions. Just two quick ones from me. I'm just trying to understand some of the steps that have been taken outside of the sort of reinsurance things that you've talked about, to integrate some of the recessionary risks in the book, particularly on sort of claims side. And then linked to the sort of economic sensitivity, you've been flagging opportunities in sort of the marine, cargo, aviation lines. I'm just wondering if you could talk to us a little bit about the volume versus pricing aspects you see and if you started to see any headwinds in terms of volume in those lines because of sort of the impact of the wider economic environment. Thanks.

A - Andrew Horton {BIO 5697110 <GO>}

So, there is obviously definitely issues on the aviation front, isn't there, with very few planes flying. So we've been in aviation for a number of years now, and we hope this is going to be the year of them growing quite considerably. So there's definitely an impact on the volume in aviation. So probably it won't grow as much as we thought, but it is being better rated as it should be. So there's definitely that issue. The cargo world at the moment, I think we've seen a reasonable amount of capacity withdrawn, so there maybe issues with less cargo in the world, but there is a reasonable amount of underwriting capacity come out. And certainly at Lloyd's, there has pressure on capacity because a lot of cargo underwriters haven't made any money over a number of years. We've seen one or two competitors withdraw, which gives us some opportunity and that applies to the wider marine world where we've got I think one of the three marine books has actually made money over a five-year period. And Lloyd's continues to put pressure on capacity and if Lloyd's is not making that much money, then other carriers also aren't. So I think we benefited from that, which is good.

I wasn't really -- I didn't really understand the first question about recessionary impact. Can you explain that again to me?

Q - Iain Pearce {BIO 19522835 <GO>}

Just you're talking -- yes, sure, you're talking about some steps that have been taken to try and limit some of the claims impact and sort of recession improves the book from the claims side. I'm just wondering sort of what those steps are and if there is potentially any knock-on effect on premiums?

A - Richard Montminy {BIO 21066233 <GO>}

Okay. Yes. There's definitely a knock-on effect on premiums because the main action we're taking is not writing the business or putting a rate increase that we'll either cover it or potentially if the business will move away from us. So, yes, so we've taken a view that certain lines of business, especially employment practice liability is more recession prone, and therefore we are taking a view that we're going to write less of it, choosing the areas which we think are most recession prone within it. So, these are things that we had a good recession view in the last recession and we've been working on this for a number of years because we're expecting the recession to come, so we're just implementing our plans more rapidly than we thought we needed to. So it does -- that does have an impact on premiums. That's what I was trying to convey that although people are trying to get us to say is this a traditional hard market or not. It's very difficult to say it's a traditional hard market, because in a traditional hard market, if there ever is such one, every line of business rates are going up at the same time and we've got a situation where there's a lot of lines of business where rates are going up and we think there's opportunity there. But you've got the contrast of that, there is a recession, which has two impacts. First of all, the recession prone lines where claims will rise, and secondly, insureds that want to spend that much money on their insurance going forward, they are reduce their costs. So you've got a hard market going into a recession, which is an unusual situation to be.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. That's perfect. Understood. Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Okay. Thanks. Are we done with the questions?

Operator

We have no further questions.

A - Andrew Horton {BIO 5697110 <GO>}

Brilliant. Well, thank you everybody for joining us today virtually. And hopefully at some point in the not too distant future we'll see you live, live live.

A - Sally Lake {BIO 20925273 <GO>}

Thank you. Have a good day everyone.

A - Richard Montminy {BIO 21066233 <GO>}

Thank you.