Q4 2017 Earnings Call

Company Participants

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

Other Participants

- Andreas Evert Cornelis van Embden, Analyst
- Edward Morris, Analyst
- Faizan Lakhani, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Nick Johnson, Analyst
- Thomas Fossard, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Lancashire Holdings Fourth Quarter 2017 Earnings Call. For your information, today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Alex Maloney, Group Chief Executive Officer. Please go ahead, sir.

Alexander Maloney {BIO 16314494 <GO>}

Okay, thank you. Good afternoon, everyone. Thanks for dialing into our fourth quarter conference call. After an active third quarter, the fourth quarter didn't offer any respite. We witnessed more events this time in California, which added a further burden to an already challenging year for the industry and the Lancashire Group. We've made a small loss for the quarter and generated a negative return for our shareholders during 2017, which is disappointing.

This year's events have been difficult for the industry and the Lancashire Group to absorb due to the high level of frequency we have witnessed and the aggregate estimates of insured losses, which are now in excess of $100 billion. 2017 will now join 2005 and 2011 as one of the costliest years in recent history for insured losses. As a group, we have demonstrated that our risk management, underwriting picks and efficient reinsurance purchasing have minimized the erosion of capital for our shareholders to a level which is well within estimated tolerances for such events.

We must remember that cat losses have a history of deteriorating, and I can't see why this series of events would be any different. It's way too early to put a final cost on each event. Previous events have crept considerably and taken many years before the true cost to the industry is known. So, the Lancashire Group will continue to learn – to try to learn from the mistakes of the past and take a cautious view on yet unproven declarations of improvements in loss positions.

I firmly believe that we have turned the corner in the writing cycle and are witnessing positive write movements in virtually all classes of business that the group underwrites. I wouldn't describe the current market as a hard market, as there appears to be enough capacity to service most risks, meaning that pricing can only be pushed so far. But we are traveling in the right direction.

But the sentiment is clear. We are seeing a more disciplined underwriting environment and we're seeing it for a number of years, which we expect to continue throughout 2018, as the true cost of 2017 materializes. We are seeing more underwriting opportunities borne out of years of rate reductions, where underwriters are starting to address unsustainable writing levels with varying degrees of success. It's a patchy market. But if you have the right underwriting talent, you can navigate these waters and carve out opportunities.

It's not a broad hard market, where the rising tide lifts all boats as if it was we would have raised additional capital to service the opportunity. But we have sufficient capital to underwrite the immediate opportunity and we'll always assess our needs on a regular basis. It is the first time we've been able to grow the size of Kinesis in a number of years. Again, like the overall theme for the marketplace, not as much as we would like to, due the competitive pressures, but Kinesis has grown by 30% at the 1st of January underwriting cycle.

So, in summary, we're in great shape. We have three underwriting platforms, which between them have underwriters positioned in a class of business where we are currently seeing the largest positive rate movements. We are carrying no more net risk levels for 2017 – than 2017 and have sufficient capital to execute our business plan. And we have access to capital if the opportunity kicks on from here.

I'll now pass over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. It's been a number of years since we've been able to talk about positive writing environment. But as Alex has already explained, we start 2018 doing exactly that. Whilst the average (04:09) is more positive than it's been for a while, we must also remember the events which brought the market to this point and the impact it had upon the group's underwriting performance. As we would expect, having a high weighting to catastrophe risk, the group's underwriting result was negatively impacted by the loss events of 2017.

For the first time in our 12-year history, we've produced a combined ratio in excess of 100%. Whilst this is obviously disappointing, it's not unexpected given the type, quantum and frequency of events, and also when put into context with the original Lancashire business plan of making an underwriting profit every four years in five (04:47). Following these losses, the negative writing trends we've been experiencing as a market over the past few years has stopped, and more encouragingly, in a number of our significant premium-generating classes, the writing is now increasing.

Approximately 75% of our 2017 portfolio of managed premiums is now achieving rate increases of some magnitude. As a group, our exposure to lines such as proxy cap, retro, D&F, energy and cargo positions us well to take advantage of an improved writing environment and also any new business opportunities that might present themselves. The group has an established footprint in the catastrophe exposed reinsurance lines via our (05:30) Bermuda, Lloyd's and third-party capital platforms. By varying degrees, rates across all these reinsurance lines improved (05:37).

Via Lloyd's, we also have access to the D&F market, which is certainly a market where we see a better writing environment and some small buckets of real dislocation. A number of the loss impacted areas, we had retracted from in recent years. So, we now have some natural headroom in which to grow back. We have a long-established history in the upstream energy market with access for our London company and Lloyd's platforms. With rates increasing and oil price stabilizing at sustainable levels, we are incredibly well positioned to benefit from any increase in market premium flows.

Our cargo portfolio in Lloyd's is also seeing positive rate movement and can grow should the market conditions continue to be favorable. Our other classes such as aviation, terrorism (06:24) and marine are now all relatively stable as the rating environment is flattening. It's also worth noting that all our major direct insurance lines made healthy underwriting profits in 2017, despite the depressed rating environment.

In addition to our existing classes, we've recently added further underwriting talent to the group. We entered the downstream energy market at 01/01 (06:48) downstream energy underwriter in November and pleasingly made an encouraging start in this new line. We'll be joined by a new power underwriter later in 2018 to create a new power portfolio within Syndicate 3010.

Fortunately, these are also two classes of business that are now seeing rates move in the right direction. These new classes are in areas you would expect to see Lancashire, crosses the short tail niche (07:14), sometimes volatile that require genuine underwriting expertise in which to generate superior cross cycle underwriting returns.

There are attractive opportunities to hire new underwriting talent in other specialty classes in the future and we will do so. We were able to renew all of our core insurance protections at 1/1 with our long-term reinsurance partners. As it stands today, we have the capital base to support the underwriting opportunities we currently foresee, but we retain the flexibility to react quickly should market conditions shift again.

We're also positive about market conditions, we're also realistic. As I've already mentioned, rating is improving in a number of our core portfolios. However, as always, we'll be looking to match risk and return appropriately. So in current market conditions, we would not be looking to add significant amounts of additional net risk, unless it's in areas where we're being appropriately rewarded. We've always said the market will not substantially improve until there is a demand, supply and balance, and whilst the conditions are undoubtedly better, the shift in demand and supply is not yet material enough to build into a proper put in a proper haul (08:20) market, simply a better market.

As we look forward to 2018, our underwriting philosophy remains unchanged. We will aim to match risk and return appropriately for the first time in a long time, we have large portions of our underwriting portfolio exposed to positive rate in movement, and we will strive to access whatever opportunities manifest in order to deliver the appropriate underwriting return to the market we're in.

I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Hi everyone. As Alex said following the third quarter (08:56) 2017 the California wildfires. The wildfires in isolation would not have had a particularly significant impact on the group, one of the costliest natural catastrophe years on record (09:06). We've recorded a net loss after recoveries of $34.5 million across the northern and southern wildfires.

Our ROE for the quarter was negative 0.9% bringing us to negative 5.9% for the year. Our combined ratio was 119.5% for the quarter and 124.9% for the year. Although, we've made a loss for the year, we remain pleased with the way our business performed across the (09:35) of events. Our capital and reinsurance strategies paid off, and while we have a small capital impairment for the year, our balance sheet remained strong. As Paul said, pricing is improving across a large portion of our portfolio, albeit not as much as we'd like to see.

We're well positioned (09:51) take advantage of those increases and any other opportunities that come our way. On results; our gross premiums written have decreased this quarter, that's primarily due to some prior year (10:03) business in the worldwide offshore book, where we saw construction project and the like cancelled.

We therefore adjusted the premiums in line with the remaining exposure on those contracts. While the adjusted pro rata premiums every quarter (10:15) bit more this quarter, given the fourth quarter is typically our lowest premium volume.

As these are prior year contracts the adjustment has a fairly immediate impact on gross earned premiums also. The effect of those adjustments, plus additional reinsurance purchase has also impacted net premiums earned and our acquisition cost ratio for the quarter. For 2018, I would see no reason to change the previous guidance we've given of an acquisition cost ratio around 26% to 27%.

As you know, we don't provide premium guidance, however we do expect to see the benefit of the price increases we've mentioned, plus any new business opportunities on our top line in 2018.

Bear in mind it will also have an impact on the payment of multi-year and non-annual deals, plus those (11:01). In 2017, the net reduction on gross premiums written in those types of contracts was (11:08) $65 million and I would expect (11:13) 2018.

Our losses for the individual wildfires are not significant with book (11:20) and energy impact of the combined event in our press release. The net loss of $34.5 million contributed 36.7% total loss ratio for the quarter.

For the third (11:31) quarters event, it is clearly still very early days, we did adjust our reserves slightly based on updated information received. We reduced our net loss reserves from the hurricanes and Mexican quakes from $153.8 million to $147.3 million. Compared to last quarter, we had a few other losses that I would characterize as (11:50), but not significant enough individually (11:51).

Our attrition for the quarter and the year does look like it's running a bit higher than normal, but that's not indicative of a trend and there's no change in (12:02) normal attrition in the mid-30s. We had some deterioration on individual claims employee act years (12:08), but we again had general (12:09) coming through and overall net (12:12) $7.4 million for the quarter.

As a reminder, Q4 2016 has strong releases from (12:22) Cathedral from the closure (12:24). Investments returns 0.4% for the quarter, driven by strong returns from our risk assets, given the modest increase in yields in the quarter, the fixed maturity portfolio generated flat returns.

I don't envisage any significant changes in asset allocation or investment strategy for 2018. We'll continue to hedge our interest rate risk to the expected rate hikes. Other income is impacted by the timing of profit commissions increases, which we received earlier this year than last and the (12:53) Cathedral.

Kinesis and Cathedral's 2015 (13:00) reflecting the relative levels of premium and performance of those years.

With the loss event in 2017, we do expect trapped capital at Kinesis and no (13:11) cycle. Our G&A ratio has increased this quarter, primarily as a function of net premiums earned. In dollar terms, assets (13:18) relative to Q4 2016 as the additional catastrophe events in the fourth quarter impacted (13:23) further. Our stock compensation costs were also further impacted by performance of the small credit according to (13:32) the quarter.

Lastly, on capital, as stated in our press release, there's no change to our dividend policy, and we're declaring a final order dividend of $0.10 per share or about $20 million. We've previously stated that we were targeting around $1.3 billion to $1.35 billion of capital with (13:48) and that hasn't really changed (13:53) 2017. As ever, we will monitor underwriting opportunities and adjust our capital accordingly.

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

Q&A

Operator

Thank you. And we will take our first question from Jonny Urwin of UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, guys. Thanks for taking my question. Just two. So firstly, how should we be thinking about the growth opportunity for you guys through 2018? On the one hand, you mentioned price seems going up across three quarters of your book or so, which is good, and you see sort of us (14:52) well positioned, which is good. But on the other hand, you're still talking about a challenging year. So, I guess, how positive are you guys?

And then, just thinking a bit more about your comments, so it sounds like you're going to get some margin improvement on a good chunk of the book, but are you also going to increase new business as well to the extent that you've got line of sight into that?

And then lastly, can you update us on how you're seeing the attritional develop through 2017? Are there any areas that were perhaps better or worse than you expected? I know, Elaine, you said there was no trend in the Q4 deterioration. But just to get a feel for the way you're running versus expectations that will be helpful. And then, how you would see that change with 2018 price increases? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Jonny. I'll take one, and then I'll hand it to Elaine. So, clearly we've got a big percentage of that portfolio, we're well positioned for the product lines that have seen the biggest rate increases. So clearly we've growth there on our existing book.

New businesses are always a little bit more hard to calculate by definition, but obviously, we are starting to see opportunities where product lines or even business have been (16:15) prolonged is finally being re-underwritten and that could be an opportunity for us. But what I would say is – I think just consistent with what other sensible people have said is, demand seems relatively flat, it doesn't (16:29) there's a huge demand at the moment, and maybe we've growth in the U.S. and the oil price stability, we're going to see more of that come through towards end of the year and into 2019. But I think anyone who thinks there's huge amounts of new business around is probably kidding themselves a bit. So there's definitely opportunities. We will clearly take advantage of those opportunities, it's quite hard to gauge, but equally as Paul said in his script, people have reloaded capacity at the same as it was in 2017 really, so I (17:06) number on it, but as usual we'll maximize that comes (17:09) through the door, if it makes sense.

A - Elaine Whelan {BIO 17002364 <GO>}

And on the interest side of things, yeah, you're right there isn't a trend there. We did see a little bit more in terms of smaller loss at Cathedral, nothing really significant in (17:27) commenting about really and (17:32) in the energy portfolio, and it's (17:35), but nothing that would be as indicative of any kind of change in terms of the makeup (17:42) underwriting it, and still pretty comfortable with the mid-30s range that we've been kind of guiding to over the last little while, if anything and price improvements in 2018 will improve.

Q - Jonny Urwin {BIO 17445508 <GO>}

Good. Thank you. And just a follow up on the growth, can you give us a steer on the 2018 net earnings given this as always there'll be some multi-year effects?

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. I think net earnings depends on how much the extra new business we've managed to put on, if we've managed to do a good chunk there, then I wouldn't (18:13) expect it to be far different from what we got for 2017. (18:18) half of our net earning comes from the current year's underwriting portfolio and then the rest of it made up from prior year start coming through. So all those multi-years we had in previous years will still give us some benefit to our earnings there. And then any new business to be right this year there (18:34) earned premium into next year, so we're getting the benefits that are coming through there at a better pricing.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

We will take our next question from Kamran Hossain of RBC. Please go ahead your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi everyone. Two questions. The first one just coming back to I guess on your renewals. Could you give us an idea of what you achieved at 1/1? And any thoughts on whether this should improve as the year goes on?

And secondly, in terms of the business plan, I guess you said that you expect to deploy all your capital this year. What does that (19:14) ROE, I know you're probably not going to give a number, but kind of I guess (19:19) would be helpful? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

So you're correct. We're not giving you the number.

Q - Kamran Hossain {BIO 17666412 <GO>}

(19:27)?

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. So just to give you a sort of a background, I think clearly after the events the first thing we would trying - we probably had about six business plans on the go, (19:41) and we come up with various different scenarios, some of that was based on should we raise capital, what was the opportunity, where we actually got to in the end, I think we got it right. So we talked about capital September, we talked about capital again probably in mid-November, but where we got to the end was we didn't need additional capital to support our business plan and that was the right call because that's where we're at.

So I think as I said in my script, if something happens in the year and there is opportunities; we probably haven't got tons of excess capital, I would love to be in that situation, where we had to go to market and raise capital, and I'm very confident we could do that. But we've got enough for the current opportunity and actually remember for us is capitalize your capital needs. So, we're still quite heavily specialty line focused. So, if we see better improvements in those lines that doesn't show up as much capital. So we should be fine this year.

A - Elaine Whelan {BIO 17002364 <GO>}

One other thing I'd just add to capital side of things is that, we talked last year quite a lot excess (20:53) that we were carrying. And so we still got plenty of hedge and some of that was most absorption if you like, but there is still plenty of hedging left there for us to use.

A - Alexander Maloney {BIO 16314494 <GO>}

And then Kamran, one other thing I said was we bought exactly the same reinsurance for 2018 as we did in 2017. So, we haven't dropped any cover, the position which is there is the same.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay.

A - Paul Gregory {BIO 16314515 <GO>}

Kamran in terms of what we saw at 1/1, I'll just go through the kind of RPIs we saw on the major lines of business. So, if you look at the reinsurance lines out of Bermuda, which is things like (21:34) et cetera, the blended RPI was about 10 point rate increase across that portfolio.

I would caveat that with there was a lot impacted business renewed at 1/1. If you look at our cat XL book it was about plus 7%, which is pretty consistent with commentary you're seeing in the market. And in Cathedral that reinsurance book was around plus 8%, so again pretty consistent.

Energy we've been seeing just below plus 5%, at 1/1 and things like D&F was around plus 6% at 1/1, albeit I would again caveat that the D&F book at 1/1 is only about 24% of the portfolio, most of which is bind out, which is a much steadier book of business and there's a lot of facultative risks to renew through (22:21). So they are the kind of the major lines of business, seeing the rises obviously, a big part of our portfolio and all the other lines terror, aviation, marine, et cetera, all are broadly flat.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's great. Really appreciate the color. Thanks very much.

Operator

We will take our next question from Nick Johnson of Numis. Please go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi. Afternoon all. Just on the new hires you mentioned, the downstream energy and power. Could you just talk a little bit about the origins of that – is that what you've seen the opportunity to have some really good people or is it in response to market opportunity? And perhaps you could just add whether there are any other areas that some – that you may also be – you may also hire into?

A - Paul Gregory {BIO 16314515 <GO>}

Sure. I'd like to say it was full side on our part and we saw the market right perhaps improving both of those lines, but it wasn't. We just identified some individuals that could come and fit within the group well that we had a lot of respect for. There were obviously areas as I mentioned in my script, you know there are niche (23:28) specialist kind of things that we do, areas of our portfolio really we should have a presence in, so we were just fortunate we were able to identify some (23:40) really good individuals that could fit in the team well. So it was more about the individuals and their availability, and then we've just benefited from the fact it looks like those lines are now experiencing positive right movement.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay.

A - Paul Gregory {BIO 16314515 <GO>}

In terms of other lines, we - as always, we're always looking at other lines business we can be in, and we'll continue to do that. There's nothing imminent on the horizon, but there's always we just - we're having conversations with various people and in something - sometimes they come to fruition and sometimes they don't.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay. And on the downstream energy and power, is it possible to perhaps quantify premium income (24:18) numbers that might be achievable in 2018, possibly 2019 for those two segments?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. I'd like to first - we don't really give guidance on that just yet given, well (24:32) power guide will turn up until mid-2018, so 2018 is not going to be really any impact. It all depends where the market ends up going at the moment, they're not going to turn into significant cost as a business, but there are going to be nice additional premiums, obviously, we have the ability those markets would change dramatically for the better and we could ramp-up quite quickly.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay. Okay. Yeah. Thanks very much indeed. Thank you.

Operator

Our next question comes from Andreas van Embden of Peel Hunt. Please go ahead.

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

Hi. Good afternoon. Just few questions from my side. First of all, on your outwards reinsurance program, you mentioned you're going to (25:21) by the same amount of reinsurance in 2018 as in 2017. But can you maybe comment on the mix? I know in your press release you've put more color for your energy book and additional limit within Lloyd's. Are you trying to protect more of your big risks into 2018?

And it also ties in with your PMLs, I just noticed that your PMLs came slightly down in January, it seems you've lowered your risk profile. So I assume you're putting capital to work in 2018, but with the same risk or lower risk, could you maybe comment on that?

And then finally on Kinesis, could you comment on what's the level of assets under management at year end 2017? And whether this 30% increase at January 1 was it just to start a further sort of increases in assets under management in 2018? Do you have some - set target AUM for Kinesis by the end of the year? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. So I'll start. So just excluding PMLs and modeling, and (26:25) comment on that at the moment. We have exactly the same reinsurance program for the group, but that's a (26:32) Lancashire as we did in 2017, and I suppose one that's a clear indication of our view of the opportunity for 2018 and a clear view of the availability of reinsurance for 2018 as well.

So, we are disappointed that rates didn't go higher as of January 1, but in clearly the opportunity – the sort of benefit of that is the availability of reinsurance. So, our retentions are exactly the same. We're not retaining any more risk at the bottom and we're buying the same cover. As we head into (27:11) 2018, we do know going through some of the transcripts and the conference calls that some people have retained more risk for 2018, and we don't think the markets moved enough to do that. Otherwise, we would have done that ourselves. I think on the PMLs, that was just probably model change noise. I wouldn't take too much notice of that. And clearly, the PMLs can move around anyway on the portfolio. The Q4 reinsurance one, I don't what that is (27:39).

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. So, the (27:40) is backwards looking. So, that's something we did in Q4. So, a little bit in Lloyd's, mostly through (27:47) and the rest is on the energy side. That's a replacement of (27:51) for them.

A - Darren Redhead {BIO 17995744 <GO>}

Hi, Andreas. This is Darren from Kinesis. As Alex mentioned, we grew the limit sold from 01/01 to 01/01 by 30%. We still have more money to utilize if we want. At the moment, we haven't. We might give some of that back to investors, but we will be looking at opportunities during the year. One of the things I would say has kind of been mentioned as a general thing. Yes, rates are up, but not as much as we anticipated. So, that's – we would like to grow more than 30%, but to-date we haven't.

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

And what is the AUM right now at Kinesis?

A - Darren Redhead {BIO 17995744 <GO>}

Yeah, at the limit's sold. It's 30% more than last year. So, you can work that out yourself. But we haven't finalized at what limit we've sold for the year. So, I'm not going to comment on that.

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

All right. Thanks.

Operator

We will take our next question from Faizan Lakhani of Bernstein. Please go ahead. Your line is open.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi. I just had one question. It was regarding the reserve releases. So, you benefited from lower cat claims from the hurricane from about $9 million in quantum, and then stripping that out, it seems like the reserve releases were actually a $1.5 million strengthening. Is that a change in reserve philosophy or have you changed the reserve process (29:20)?

A - Elaine Whelan {BIO 17002364 <GO>}

There's no change in our reserving methodology. The change in the reserves for the hurricanes is going to occur in accident year stuff (29:31). If you look at the prior year developments, it's just not going to impact that (29:36) prior quarter developments. And quarter-on-quarter, I mentioned this is a little bit more of an uptick in attrition. We saw some stuff come through in 2016 here on both Lancashire and Cathedral side. And if you look at Q4 last year, we did have some (29:51) releases in Cathedral, and that was some specific claims being released plus the close-out of 2014 and just a lack of (29:59) coming through. And then, we've said in the past not to pay too much attention to what happens with an individual quarter, because it can be lumpy. Some quarters will get more reported. Some quarter will get less.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Thank you very much.

Operator

We will take our next question from Edward Morris of JPMorgan. Please go ahead. Your line is open.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, two questions. First one is actually just coming back on reserves. One of your peers was explaining that when they end a year with less surplus in the short-tail classes, then they typically expect lower reserve releases the next couple of years. Can you just explain whether that might be the case for Lancashire or should we expect a similar situation to any other year for 2018? And the second question is on tax. Can you just confirm no expected change to your tax rates as a result of tax reform? Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

So, again, we haven't changed our reserving methodology. We don't give any guidance on where we expect reserve releases to go purely because of the nature of our book. It's pretty hard to predict that. Sometimes we get nice releases. Sometimes we get lower releases. So, we don't (31:11) future profit. So, you can work your numbers out on the same basis that you have been previously. And in terms of tax, there's obviously a lot of stuff changing in the tax world. We don't expect to have any significant impact (31:27) get a little bit less group release (31:29) going forward, but nothing too significant. We (31:32) tax number anyway whether it's a charge or a credit.

Q - Edward Morris {BIO 16274236 <GO>}

Okay, thanks.

Operator

We will take our next question from Thomas Fossard of HSBC. Please go ahead. Your line is open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, all. Two questions on my side. On the reinsurance and retrocession program, so obviously you mentioned that everything was almost left unchanged compared to 2017. Can you still quantify how much more you have to pay in order to get that cover in place for the year? And second point, I think that, Alex, in your introductory remarks, you explained that you're expecting some loss report – the loss reporting on HIM to go higher or potentially to have some deterioration. Have you got any early sign of this since the start of the year? Or overall, what is your (32:41) around loss reporting, especially in Q3 and Q4? Have you – is there any worries you've got around that? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Sure, okay. So, I think what I was trying to explain on the HIM losses were, we haven't had significant cat losses for a number of years in this industry. And when you look at prior cat events, if you look at the life of a cat claim, we've got cat claims on our books that we're moving for five years. So, I think there has been some commentary and there's been some movements in HIM losses that, just from my personal point of view, seem a bit strange that such a short period of time of those events, some people are reducing those HIM losses already. And I would like to be or we are as a group more conservative. We have lived through these losses before.

There's still not a huge amount of information coming through the system. We have seen some Irma deterioration from a number of clients recently. There's still not a lot of Maria information coming through. So, look, reserving is notoriously difficult for these classes of business. If you're publicly traded, you have to go to the market with virtually no information. So, I don't want to be sitting on one of these calls with a HIM loss going out. That could happen. It could happen to anyone. But clearly, we're trying to be as conservative as we can (34:13).

So, I suppose our reserves haven't moved much. We don't play games with our reserves. We're a little bit surprised that some of the HIM losses are coming down so quick. And if you look at any of the original PCS numbers on every single cat claim, no cat claim has ever got better. So, there's varying different degrees of half-lives that the sort of (34:38) agencies get to where they think the funnel (34:42) is going to be. But probably these serious events were a little bit more complicated as well just because you had so many. So, I just think it's early days. I'm usually the one complaining about nothing happening quick enough in insurance, and I think this time, I'm saying let's wait and see where these claims get to and we'll have a much better view of that in the next 12 months.

A - Paul Gregory {BIO 16314515 <GO>}

In terms of the outwards at 01/01, Thomas, it really did vary per program. We have a number of non-cat non loss-affected programs, and you were seeing anything between flat to plus 5% (35:20) on those kind of contracts. If they were cat renewals, then obviously you were seeing a bit more of that, and they were loss-impacted layers, then again you would see a bit more than that. So, it really was varied depending upon the program, but all in line with our expectation and broadly in line with what you were seeing around market commentary for certain lines of business.

A - Alexander Maloney {BIO 16314494 <GO>}

And then, clearly if you look at our inwards rate and how much of our inwards premium we spent on reinsurance, we're net positive even after the reinsurance increases we'll pay this year.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

We have a follow-on question from Jonny Urwin of UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks. Really quick one just on the investment return outlook. Can you give us a steer given we've got slightly higher yields? Thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah, sure. We're still pretty short duration. Our yields have gone up over the course of the years. Rates have gone up, and we expect them to increase a little bit again. So, we'll just have the mark-to-market impact of that. But I think we'd expect the current yield to be something that we can maintain throughout 2018, if not increase a little bit with all the rate hikes.

Operator

We will take our next question from Nick Johnson of Numis. Please go ahead. Your line is open.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi, again. I'm just struggling a little bit to square the comments that the market has turned the corner with the other comment you make that it's going to be another challenging year for the industry. I think you've sort of said some things that perhaps (37:14). Perhaps you could just clarify on that a little bit, please. Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

So, it's a funny thing, we've turned the corner because we're not getting reductions anymore. So, that is a completely true statement and a number of classes of business are in positive territory. But everyone just needs to be a bit realistic about where we're at in the rating cycle. And yes, rates are up and that's brilliant and I'm really happy about that. But if you look at where you're coming from, it hasn't really moved at all massively, has it. So, I think everyone want a hard market, everyone want rates to go up, no more southern journey occurring (37:55).

But the facts of that matter are it's great to be in positive territory, but we're just not - rates need to go up to a more sustainable level over a period of time. But clearly, everything kind of (38:11) capital and the returns that we need to give to our shareholders. And all the time that there's plenty of capital that we can match a low return, maybe that's okay. But I suppose it's just a realistic comment of, yes, rates are up, but you just got to appreciate where we're coming from. So, I still think 2018 will be a challenging year, and in most classes of the business, it's still difficult to make money. So, I think we're just being incredibly honest about half-year of 2018 and we're not getting ahead of ourselves.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay, got it. Thank you very much indeed. Thanks.

Operator

We appear to have no further questions in the queue.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you for dialing in and we'll talk to you next quarter.

Operator

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