S1 2021 Earnings Call

Company Participants

- Aki Hussain, Chief Financial Officer
- Bronek Masojada, Chief Executive Officer
- Joanne Musselle, Chief Underwriting Officer
- Kevin Kerridge, Chief Executive Officer, Hiscox USA
- Robert Childs, Non-Executive Chairman

Other Participants

- Andrew Ritchie
- Ashik Musaddi, Analyst
- Ben Cohen, Analyst
- Freya Kong, Analyst
- Ian Pearce
- Kamran Hossain, Analyst
- Tryfonas Spyrou, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Hiscox Ltd 2021 Interim Results Call. My name is Nadia and I'll be coordinating the call today. (Operator Instructions) I will now hand over to your host, Robert Childs, Chairman of Hiscox to begin. So, Robert?

Robert Childs {BIO 1776179 <GO>}

Good morning, ladies and gentlemen. I'm Robert Childs, the Chairman of Hiscox. After 21 years as CEO and 28 years at Hiscox, Bronek is retiring at the end of the year. During his tenure, he has taken us from being a small private Lloyd's business to a global specialist insurer with a premium of $4.5 billion and a market cap of much the same. He's been an inspirational leader, demonstrating strategic insight, great operational abilities and true grid in the difficult times. Bronek has always acted like a proprietor, matched with energy and long-term vision. We have worked together for 28 years and I and we will miss him. What an act to follow?

We believe in Aki. We have the right person for the next chapter at Hiscox. Aki is an original thinker, open and engaging and someone who can motivate and build teams. He is quite well known to most of you. He's added valuable experience for Committee Hiscox, with Virgin Media and approved.

We believe we have the best of both worlds with an internal appointment with extensive previous experience. He has a drive, a long-term vision to take us forward, maintaining our sense of ownership.

Bronek is retiring as the business is turning a corner. It is my pleasure to announce therefore a very good half year result of $133 million. A very pleasing to all our shareholders, the Board has agreed to resume a dividend payment with a progressive policy going forward. Today, as usual, you'll be hearing from Aki Hussain, then Joanne Musselle, our CUO, followed by a newcomer to the presentation, Kevin Kerridge, our CEO Hiscox USA, Bronek will conclude the presentation.

I'm now going to pass you over to Aki.

Aki Hussain {BIO 19739719 <GO>}

Thank you, Rob and good morning, everyone. I am thrilled and delighted to be appointed CEO. I'm being given the opportunity to follow on from Bronek, in leading a wonderful business for the dedicated and talented people. I will be leading a business that has a great history, a business that has turned the corner after a prolonged soft market and the challenges of 2020. When I look across our business, I see significant opportunities everywhere, in London Market, in Re & ILS and in retail. And in particular, an escalating opportunity across our digital platforms. I'm looking forward to leading the business as we write the next chapter in our story and realize this potential.

Now turning to our current financial performance. I'm pleased to report a return to profitable growth for each of our reporting segments. In Hiscox London Market and Re & ILS, we're seeing the benefit of multiple years of much needed rate improvements, combined with disciplined underwriting actions. And this together with a quite a second quarter for loss experience is driving material improvements in combined ratios. In these improved conditions, we have deployed capital, enabling the businesses to grow the net written premiums at a much faster rate than growth.

As you know net written premiums are the key source of earnings power. In retail, we are continuing to see robust growth and our digital partnerships and direct business globally continues to go from strength to strength. Particularly in the US, which is up 30%. I'm pleased to report an overall profit of $133.4 million. Adjusting this for COVID loss estimates, arising from new lockdowns in 2021 of $17 million and the LPT charge of $26 million disclosed earlier in the year, the underlying profit rises to $176.4 million.

In light of the Group's improved performance, having carefully considered the capital requirements of the business, the Board has decided to resume dividend payments. And today we are announcing an interim dividend of $0.115 per share. In absolute terms, the dividend cost of $40 million is consistent with our last interim payment in 2019. However, of course, on a per share basis, it is a 20% dilution following the equity raise in May of last year.

Now moving on to each of the business units. As usual, I'll begin with Retail. Hiscox Retail has delivered a strong performance in challenging conditions, growing its top line by 7.9% or 2.6% in constant currency. This was driven by growth in Europe, a resilient performance in the UK and a slight top line decline in the US, with the planned reductions in the US broker channel were mostly offset by stronger than expected growth in the US digital partnerships and direct business.

We now roughly halfway through the $100 million of US broker GWP reductions we announced in March. Now adjusting for this, the retail go forward portfolio grew at 6.4% in constant currency. Our global digital partnerships and direct business now represents over a quarter of retail GWP. It grew 23% in the first six months of the year to over $355 million and we now have 880,000 DPD customers globally.

There continues to be considerable room to grow into an estimated 50 million individual small, micro, and nano businesses. The opportunity is particularly significant in the US where we grew DPD premiums to 220 million in the first half. Now to provide more color on the business and the attractiveness of the opportunity, you will hear shortly from Kevin Kerridge, the CEO of our US business and the architect of the DPD business from inception.

I'm particularly pleased that our retail business remains on track to return to a combined ratio in the range of 90% to 95% by 2023. In the first half, there are a couple of things that you've noted, which distort the picture. Firstly, as you remember, the retail combined ratio we guided to exclude COVID-19 losses arising from lockdowns in 2021. You will recall we estimated this would amount to less than $40 million for the first six months. In fact, the current estimate is around $17 million.

Secondly, in May, we completed a loss portfolio transfer, transaction related to selective lines of Hiscox Syndicate 3624 at a net cost of $23 million to the retail segment. This is a one-off transactional cost. Adjusting for these two items, the retail combined ratio is showing an improving trend at 96.7% compared to full year 2020.

Moving onto London Market. Hiscox London Market has delivered a strong performance in the first six months of the year, continuing the performance trend from the second half of 2020. We have seen robust GWP growth and an even stronger net written premium growth at 16.7%. Over a number of years, our focus has been on improving the performance of our portfolio into a hardening market. So we are growing where it matters and where we see the best opportunities. Importantly, the impact of underwriting actions taken over the last few years are now manifesting themselves in much improved loss performance and profitability.

In the first half, London Market delivered in net combined ratio of 81.7%. That's a 23.5 point improvement on the prior period and an underwriting profit of $68.7 million. The outlook for the rest of the year remains positive. Rates are up 12% year to date and momentum is continuing. As a reminder, 2021 is the fourth year of rate improvement with a cumulative increase of 60% since 2017. We believe we are now writing new business with a mean combined ratio expectation in the mid-80s, which we'll earn through in the coming years. We're also making good progress on e-trading as we use technology to increase efficiency, improve risk selection and open up new pockets of business and you'll hear more on these initiatives from Joe in a few minutes.

Now turning to Re & ILS performance. Whilst GWP has increased, on adjusting for reinstatement premiums, the top line remained flat. In the second quarter, the team attracted $190 million of gross new inflows into the ILS funds. This resulted in a significant increase in gross written premiums as the new capital was deployed in June.

In our reinsurance segment, we have seen multiple years of rate increases, much like London Market. Rates are up 9% year to date and 36% since 2017. In this improving market, we have closed some of the gap left by some of the gap left by reduction in third-party capital support by deploying our own balance sheet and supporting the 40% increase in net written premium.

In growing the net, we have taken a more many catastrophe bet. Our reinsurance business has returned to profit and I'm particularly pleased with the material improvement in combined ratio, which is after absorbing a $33 million impact from Storm Uri.

Now turning to investment performance. We achieved an investment return of $61.9 million or an annualized return of 1.7%. Given the low interest rates, the investment income is ahead of expectations, but as you can see, it is almost entirely driven by risk assets with bonds giving us very little in total. The current yield to maturity on the bond portfolio remains low at around 0.5% with investment-grade corporate bond spreads at historically-low levels. Now rather than reach for yield, we are comfortable maintaining our credit exposure, given the supportive economic policy backdrop. Then the Group continues to maintain a modest exposure to risk assets.

Now turning to results. Our reserve position continues to remain robust with a margin above the actuarial estimate of $348 [ph] million or around 11.3% of net reserves. We continue to see positive aggregate reserve development with prior year reserve releases of $79 million. Now staying on the topic of reserves, in the first half, we completed two loss portfolio transfer transactions, which means we now have reinsurance cover in place totaling $899 million on net ceded reserves of $587 million. This is equivalent to a 1 in 200 [ph] return period reserve deterioration cover. These transactions have been capital accretive and will moderate P&L volatility.

You will recall from previous updates that we have seen reserve volatility in recent years from three specific areas. Firstly in retail, US broker channel originative [ph] standalone general liability business. In Re & ILS volatilities come from the legacy Bermuda healthcare book and in London Market it's been the property portfolio binders.

The first of these, the first two of these have been largely addressed by completing the loss portfolio transactions. The third issue in London Market has been addressed through portfolio re-underwriting actions that have been taking place over the last three years, as well as rate improvements. We have completed the last significant leg of remediation actions this year on this.

Now turning to capital. Capital strength and financial flexibility is of paramount importance to the Group. The two LPT transactions added an estimated 10 points to our regulatory capital ratio and this in combination with profitable growth in the first half has resulted in a 20-point improvement to our regulatory capital ratio taking it to 210%.

The last leg of the BSCR strengthening implemented by the BMA across the industry will complete at the end of this year. The expected impact is a reduction to the BSCR ratio of between 10 points to 15 points. This will be moderated or this impact will be moderated by further internal capital generation in the second half.

Our capital position is strong. The biting constraint as you know, over the years has been the desire to maintain an A rating from S&P. And as you can see, even in a post-stress scenario, we expect to maintain a BSCR ratio of around 180%. This is comfortably above the minimum required for an S&P A-rated company with our risk profile. As we look forward, we have sufficient capital to execute our business plans and the opportunities we see ahead.

And now, I will conclude with some remarks on our outlook and guidance. As you may recall, I provided some quite specific guidance regarding 2021 performance back in March, which we summarized for you on this slide. I'm pleased to report the half year results illustrate we are on track to deliver against this guidance.

Our London Market gross written premiums are in line with expectation and as promised, net written premiums in both London Market and Re & ILS have materially exceeded gross written premiums. As a reminder, this is the key source of earnings power and will emerge as earned premiums over the next 24 months.

In retail, we are halfway through reshaping our US broker channel book. Adjusting for this movement, retail premiums grew a 6.4%. This is in line with our guidance of being at the bottom end of the 5% to 15% range in 2021. The underlying retail combined ratio is 96.7%, showing an improvement on 2020. And last but not least, we have committed to driving 1% per annum reduction in our operational expense ratio in 2021 and 2022.

Our disciplined expense control in the first half has resulted in an expense ratio of 44.9%. This includes 1% adverse impact from exchange rate fluctuations, as the dollar has weakened comparing this to a normalized expense ratio in 2019 of over 46% demonstrates solid progress.

As I look into the second half, I'm optimistic. Our business performance is on track and the course correction actions will continue to earn through. When thinking about full-year profit projections in your models, it will be important to factor in two things. Firstly, investment income outperformed in the first half, we don't expect to repeat in the second. Secondly, the first half included benign claims experience in the UK. This is already, not the case in the second half with multiple flood events experienced in July and we also benefited from a quiet second quarter from a loss experience perspective in London Market and Re & ILS.

I am optimistic as we go into the second half. Our business is strongly capitalized with greater financial flexibility with business lines carrying more rate and margin than in recent years.

And now, I'll hand over to Joe to take you through our underwriting performance.

Joanne Musselle {BIO 19106109 <GO>}

Thank you, Aki and good morning, all. At the year end, I laid out some expectations for 2021 and we'll start with an update on Slide 13. Given the market conditions, we had a plan to grow where there is opportunity and we have done this with gross written premium across the portfolio increasing 8.5%. Our plan was to retain more premium net and big tickets, deploy more of our capital in a favorable markets. Re & ILS has grown its net written premium 40% and London Market 17% and this is compared to 9% and 10% growth, respectively.

In retail, digitally-traded business has seen a 23% growth in the first half with US digital and partnership up at [ph] 30%. Whilst the more favorable market, discipline and active portfolio management remains key. The refocus of our US business to small revenue customers, cyber remediation across the portfolio in addition to actions on our Decile 10 portfolios across the Group is progressing well and on track. Active portfolio management is not just on the go forward, as we've heard from Aki, we've also successfully completed two legacy reinsurance transactions, which will reduce volatility capital and management time on the back book.

Great momentum continues and I'll go through the detail in the later slides. A familiar slide to many, Slide 14 shows how we actively manage our portfolio. Overall, I am pleased as our underwriters have grown where there is opportunity and shown discipline where needed. In aggregate, we've increased our top line while walking away from $100 million of underperforming business. We've also strengthened the portfolio through reduced exposure and tighter terms and conditions, and I'll take you through a few highlights.

Our largest segment, small commercial, which can be seen on the far left, has grown by 5% and this is pleasing as some portfolios like events and cancellation are still affected by the restrictions and we're exiting some US broker business. As I've mentioned, our reinsurance topline increased by 9% growth, but over 40% net as we've taken the opportunity to retain more on our balance sheets. After many years of remediation of property lines grew by 5% overall, and global casualty, which is our casualty lines written through Lloyd's has grown by 12%, once again driven by rates, our exposure in 2021 is lower 2020 and materially lower than '19 and '18.

Another familiar slide is our rating chart on Slide 15. As a reminder, the chart shows our rates indexed back to 2012 on a rolling 12-month basis. And it's really satisfying to see a continuation of upwards rating momentum. London Market, which is the blue line continues its dramatic rise where rates are up 12% overall.

2021 was the fourth year of rate rise in London Market, a compound growth of 60% since 2017. While some of the early rate rise negated an increased view of risk, we are now seeing the rates materially improve profitability. While overall momentum continues, the picture is more nuanced by line of business. Cyber product recall in space have hardened significantly over recent months.

Rates in casualty lines continued double-digit, but at a slower pace as we have benefited from dramatic rate increases earlier in the cycle. This underwriting discipline is extending beyond pricing, as we're also reducing exposure through line size and terms and conditions, which reduces volatility.

Rate momentum is also continued in Re & ILS, which is the red line, with an average increase of 9% across the portfolio on a cumulative rate increase of 36% since 2017. The business benefited from double-digit increase in risk, marine, retro and North American property at the important January renewals. April reinsurance renewals focused on Japan, delivered mid-to-high single-digit rate rise and June's Florida renewals achieved a 10% average rate increase.

Retail, which is the green line accounts for more than half of the Group gross written premium and nearly three quarters of net premium and it's much less cyclical with regard to pricing. Whilst the rolling nature of the graph and the scale makes this tricky to see in the chart, we are seeing just over 5% positive rate movement with rates accelerating through 2021.

Quarter two rates are up 6% compared to 4% at quarter one. Increases in construction material and labor cost, plus the ongoing debate around casualty, social inflation is making claims inflation a hot topic. Whilst inflation has increased, our view is rates are being achieved in excess. We're also taking preemptive actions across the portfolios at the underwriting stage to ensure adequate sums insured and rebuild costs.

Whilst rates have improved, the quality of our portfolio has also improved. And I would like to thank our underwriters for all of their hard work. Slide 16 shows how we've grown premium, whilst reducing aggregate exposure. Claims arise from exposure not premium and the 2021 underwriting year looks promising, tracking below 2020, which in turn is tracking below 2019 at the same point in time. We continue to actively manage our portfolio, focusing on repricing or reducing the bottom decile, whilst continuing to invest and grow our exposure in our top performing lines.

We have embedded an active portfolio management cycle in each one of our business units with visibility and tracking of the structural performance of our lines. When the market eventually softens, visibility and course correction is key, emerging claims trends and underlying risk evolve and we need to adapt our underwriting to take these changes into accounts. We have not always got the time in spot on historically, but this underwriting discipline, ahead of the cycle will position us well for the future.

Turning to Slide 17. Cyber is one such portfolio that has evolved materially. As can be seen in the top left quadrant, global ransomware attacks have increased materially since 2019. In line with the rest of the industry, we have also experienced an increase in frequency and severity across a number of our markets, particularly in the US region.

We saw early signs of this emerging trend three years ago and have been undertaking portfolio action since 2019. Examples of which can be seen in the top right quadrant. Even though we are a Tier 2 player in cyber, we have adjusted the Group's cyber risk appetite and taken corrective action, focusing on customers with lower revenues in retail and reducing exposure to lower attachment business in big tickets.

In addition to the underwriting action, we've also put through material repricing, which can be seen in the bottom left quadrant. This repricing is gathering momentum. And in quarter two, the average increase across the whole of our portfolio is over 30% and is now up 60% since 2019.

We also attach great importance to mitigation actions as human error is by far the biggest business vulnerability when it comes to cyber attacks. We incentivize our small business customers to attend the Hiscox CyberClear Academy, an approved training program designed to help counter cyber risk.

To date, around 5,000 businesses have gone through the program and early indications show a positive impact on their loss ratio compared to those who have not. We're also introducing changes to our cyber product offering as well as utilizing third-party data and models.

It's not just cyber where we're utilizing technology. We are increasingly using technology across the portfolio to achieve underwriting advantage. And Slide 18 shows our focus in four areas; improved risk selection, enhance customer experience, access distribution or assist with underwriting efficiency. So let me give you some examples of these, starting with risk selection.

In the UK, we have partnered with a third-party data provider and discovered a strong and consistent predictor associated with ghost [ph] post office boxes. Customers registered at these are costing us around GBP10 million per annum, running at a loss ratio around 300%.

Two examples of improved customer experience. In Europe, we have launched an app to assist our customers with assessing the true valuation of their classic cars. And in the US, our cyber customers with less than GBP100 million in revenue will receive complementary access to breakthrough AI-powered cybersecurity protection provided by Paladin. To enhance our distribution capability, in London Market, we have extended our Hiscox plus API flood and household offering to commercial.

And finally, underwriting efficiency. We have embarked on an IT transformation program across all of our retail platforms. And given the size of our retail customers have an ambition to underwrite 90% by volume without referral to an underwriter. We are well on the way to achieve in this and our new business written through our digital partnership and direct portfolio is already at 95%.

I will now hand over to Kevin Kerridge, our US CEO. Kevin has been a key architect of the Hiscox digital proposition, first in the UK and then in the US, and he will talk more about our US digital partnership and direct business.

Kevin Kerridge

Thank you, Joe, and good morning, everyone. I'm delighted to be talking to you today and bringing to life the opportunity ahead for our digital partnerships and direct business in the US or DPD, as we refer to it internally.

Whilst I've met some of you at investor conferences over the years, I'm probably a new face to many, but this is certainly not the case in Hiscox. Prior to taking the reins as CEO of Hiscox USA earlier this year, I've spent most of my 25 years at Hiscox, building and running our digital businesses, starting in the UK and then moving to the US in 2009.

I've always been excited by what we call our digital DNA, a drive to grasp opportunity using digital models, which is not just about the technology itself, but also about the way we think. We know that small businesses and also the partners that serve them are an underserved market. They want to embrace digital to give them better access to product and better service. We believe that leveraging digital in the way we have gives us the opportunity to create America's leading small business insurer against that need. That puts us front and center of a very significant opportunity.

There are approximately 32 million SMEs in the US. The insurance penetration is low, and the market is underserved and competitively fragmented. According to our internal estimates, in gross premium terms, this translates into a total addressable market of about $130 billion, which has grown at a compound annual growth rate of 3.5% since 2016. Most importantly, as you can see on Slide 21, US DPD has been growing at a 35% compound annual growth rate since 2016, significantly faster than the market.

We've been taking share by offering a market proposition that resonates with small businesses, focused on a great experience, empowered by digital, but also supported by humans when a customer needs it. While our risk appetite and product set narrows today's target market to $16 billion of premium, we know it will grow substantially over time through evolving our own underwriting appetite as well as finding opportunity to work with third-party carriers.

We've built the ecosystem that allows us to digitally trade. And so now expanding our industry footprint and adding new products will drive further scale with marginal investment required. Increasing our target market is a key strategic lever we will pull in the next stage of our journey. This puts us in an incredibly strong position to build on our 2021 annualized DPD premium of around $400 million to drive further into this market and help more small businesses to secure coverage. But getting to this stage didn't happen overnight. So let me take you through the detail of how we got here.

We've been very busy over the last decade after entering the market as a first mover on the 15th of November 2010, with no legacy, a lot of digital expertise from the UK and huge amounts of ambition. That was before InsurTech really became a thing.

Let me walk you through some of the broad themes on this chart. First, we have a significant head start on the market having launched in 2010, which is key to our profitability now. Building a digital business is about constant small turns of the dials and constant small course corrections, whether that's operations, underwriting or marketing and distribution.

The compounding nature of those cumulative turns and course corrections over a decade, are hard to replicate. Second, we have continually expanded the footprint of the business. On product, we started with general liability and professional liability, building that out across business owners policy, cyber and also products like workers' comp underwritten by third-party carriers.

On industry classes, we have built out from office space professions to artists and trades. On geography, we started in '21 states and now have a national footprint with the sole exception of Alaska. And on distribution, we started with a pure direct-to-consumer model and very quickly leveraged our digital platform into partnerships, where today, we have over 100 partners accessing our products.

Third, we've invested heavily in market presence and capabilities, whether that be our marketing investment to build brand awareness, brand affinity and consideration, an investment of over $250 million since launch, with about 20% of that, specifically on building our brand amongst small business owners or the investment in APIs and the recent investment of over $100 billion in renewing our full technology stack, so it's fit for purpose for the next decade ahead, an investment which is in market today, in our service centers and on track to fully complete by the end of this year.

We also believe strongly that digital DNA encompasses access to people when customers or agents need them. And so whilst over 80% of transactions go through the machine without touching a human, we've also invested in our two service centers, one in Virginia and the other in Nevada, which together now handle about 1 million calls per year.

It has taken a lot of hard work and investment to get to where we are today. And as we look back at our achievements, I'm filled with excitement about the next 10 years, not just because of the foundations we've built here, but also because of the way the market is shifting. If you need evidence of that, you see that we wrote $30 million of premium in a single month for the first time in June 2020 as the global pandemic took hold.

With the entire Hiscox team working remotely, we were able to meet the growing demand to trade digitally as new business formation accelerated. We now have 490,000 customers, and it is not long before we crossed the 0.5 million milestone. A key part of our expansion has been an omni-channel distribution strategy we like to refer to as all roads lead to Hiscox.

We strongly believe that the most effective way of acquiring customers is by supporting all the various channels where they choose to place their business insurance. We are ultimately agnostic as to whether a small business reaches us and transacts with us directly or through our partners. And we constantly look for new ways to reach new customers.

DPD started life as a direct-to-consumer play, which we see as a long-term opportunity as businesses change their buying behavior, similar to the journey personal lines auto insurance has been on. The opportunity there today is growing fast, but it's still small. When we're asked about how we feel about new entrants coming into this space, we welcome it because that accelerates the change in buying behavior and floats or boats.

We are well positioned as the landscape continues to change over time. The bigger opportunity today is the digitization of partner distribution. We have well over 100 distribution partners, funnelling small business insurers our way. These cover the full range from the agencies of the personal lines powerhouses, to captive agent networks to InsurTech aggregators to the thousands of mom-and-pop retail agents that exist in every main street in the US.

In a recent survey, 91% of users said that our platform was better or much better than others they've used. We continue to invest to keep that experience differential in place. The foundation of this opportunity is our multi-faceted digital platform where we can support partnerships with Hiscox portals or integrate into their shop windows using APIs, all backed by best-in-class service center experience when needed. And through all of this, we've been obsessed with meeting customer needs and delivering products that work for them. To do this well, we've been very selective on the makeup of the DPD book.

Let me describe our typical customers and the products they purchase. The US DPD appetite covers over 800 industry classes. And some examples are shown on this slide, over 60% of our customers are professionals. Within that category, the largest segment are emerging professions, examples of which include technology and marketing consultants. Often, we see these customers leaving full-time employment to start-up their own specialist businesses.

Next, are the traditional professions, such as architects, engineers, realtors and accountants. These customers are typically highly educated and operating in industries with professional standards. The final professional segment are service industries, which range from wedding photographers to hair dressers and new salons. The common theme here is that they are providing a service to their clients, often interacting with them in person.

In addition to these three segments, we have a growing trades book. In this space, our landscapers, plumbers, carpenters and many other trades, which are a critical part of the US small business population. While these industries present an attractive market opportunity, given the diverse nature of these businesses, we are very selective in our risk appetite.

For example, we don't tend to cover certain activities, such as roofing, excavation or construction. Our digital platform enables us to put a very tight box around appetite and underwriting. Across all industries, the biggest driver of demand comes from contractual obligations. About three quarters of our customers buy general liability and just over a third purchase professional liability. Clearly, there is some difference in buying behavior, depending on the nature of these businesses.

Traditional and emerging professionals who offer advice or an intellectual product, seek professional liability coverage to protect against errors in their work, services and trade industries who interact directly with their clients or clients' property seek general liability coverage to protect against accidents, leading to property damage or bodily injury.

We also think about our customers in terms of size. And for US DPD, that means the smallest possible. 82% of our customers have annual revenues below $150,000 and 96% below $0.5 million. Many of our customers are purchasing insurance for the first time and/or starting business for the first time, working out of a home, office or shared space. Because of this focus on nano businesses, we see less take-up of our business owners policy, often called BOP.

BOP is typically purchased by larger businesses with more meaningful property exposure. That said, we are seeing increasing demand as we expand the product footprint. Industry product and customer size are all important dimensions we consider when looking at the US DPD book. And because of our sophisticated approach to underwriting, we are able to write business at attractive loss ratios across the entire book.

So in summary, I think you'd agree that the opportunity ahead of us is significant. We want to keep capitalizing on our first-mover advantage and the decade-long head start we have in the SME digital opportunity. We have an enviable position on the scale of what we've built so far. The inherent structural profitability and the capabilities and market presence we've built.

Our focus now is on continuing to invest to drive growth, further enhancing structural profitability and widening the competitive moat. We will continue to leverage the resources, expertise, experience and capabilities of the broader group. The capital required to support our growth is fully funded from profits generated across the Group, including the big ticket business. The cost of back and middle office functions is shared, which contributes to DPD being a profitable business, and we are benefiting from the deep underwriting expertise of the rest of the business.

Last but not least, our single global brand supports the success of our distribution strategy. US DPD is strongly positioned and has the full support of the Group to continue its expansion, leveraging this capital, brand and know-how. I hope you now share my excitement about the opportunity that lies ahead of us.

Now let me hand it over to Bronek for his final thoughts.

Bronek Masojada {BIO 1776109 <GO>}

Thank you, Kevin. As always with Kevin, he's sold himself short. What he didn't tell you was that back in the year 2000 when the dot-com boom was at its peak, we did claim GBP1 million and said, please go and figure out what this Internet thing is all about. And he built from scratch, our UK direct business, which is now a $150 million business and contributes very well to the UK business's profitability. He then, as he said, relocated to America with his family and is repeated it clearly on a bigger scale, and ultimately, we expect an even more profitable scale.

I think, though, it's really important to look at the digital partnership and direct businesses around the world in the context of our retail businesses as a whole. As you can see, the retail businesses have gone over the last five years from $1.5 billion per annum to at the end of last year, $2.2 billion. Within that, the digital businesses grew at a compound 22% rate, but importantly, and in a way that I expect to continue. The breaker channel business has gone at a compound 5%, and both are really important as we look for our future opportunities.

In terms of profit, you can see how strong the underlying profits have been. Clearly, last year, including COVID we would have lost money, but you can see how much smaller that loss was, thanks to the performance of the business. And the first six months of this year, retail has made over $70 million. So you can see that we're back on track on an underlying level.

So looking forward now, clearly, I'm delighted about the way the strategy has worked over the last 18 months. Our big ticket businesses in Re & ILS and London Market, as you see in the P&L today, have made a material contribution to the Group's profitability. And given the rating position that you've heard from Joe and that's impact of the constant course correction, that will continue in the future. And we expect to be able to use some of the excess profits that the big ticket businesses generate to overinvest in the retail business so we can continue to capture both the digital opportunity, but also important other opportunities in the broker channel and in our high net worth business.

Because I think as I look at opportunities ahead on the next page, the portfolio cost correction, as I listened to the presentations, I think you've got some new words that you're going to learn from or hear a lot from Joe and from Aki is this constant course correction, never being satisfied with what you've done and tweaking the dials piece by piece quarter-by-quarter to ensure the portfolio stays in the good shape. And you've seen the impact that Joe has had in the 18 months since she took over that leadership role.

At the same time, we've had a material rating action. That's partly thanks to market. But more importantly, in fact, has been thanks to the efforts of hundreds of underwriters around the world, if you've negotiated that policy by policy, breaker interaction by breaker interaction or through the analysis and tweaking of portfolio actions, and that's what we are benefiting from today.

And at the same time, there's been hard work on expense management above and beyond the shorter-term impact of reduced travels. So we are seizing the opportunities in every part of our business. And that means we are very well capitalized. We're above 200% on the BSCR capital ratio, and we're pleased to have achieved that.

And that's allowing us to pay the dividend, the promise we made to all of you, our shareholders when raised the capital that we returned to dividend list as soon as the Board thought it's the prudent thing to do. This is why last opportunity to speak to all of you as Chief executive of Hiscox.

I've been privileged to lead this business for a very long time. I think it's important though that you all know that it has never been me alone. I had a wonderful partnership with Robert Hiscox and with Robert Childs, then with Richard Watson, Aki and Joe. And it's that team effort, which has driven the growth of Hiscox.

I'll leave now it in good hands. I'm delighted that Aki is succeeding me. I know that he's got an ownership mentality and will run the business for the long term. I can see at least a decade of opportunity ahead. In Joe, we have an underwriter who's got rigor discipline and inspiration to ensure that constant course correction continues forever. And in the senior team, we have depths and breadths, as you're seeing today from Kevin and others who you don't know. So I leave Hiscox in good hands. And (inaudible) Aki and Joe, and the other senior team have my wholehearted support, and I look forward to their continued success.

So with that, I'll -- we'll take any questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Will Hardcastle from UBS. Will, please go ahead. Your line is open.

Q - Will Hardcastle {BIO 16346311 <GO>}

Good morning, everyone. Thanks. Thanks for that. First one on the US DPDs, it's really helpful presentation. Thanks for that. Just clearly a fantastic growth, delivery and opportunity. Just trying to get the current profitability of this relative to the rest of normally given how fast the growth is, there's a differential there. I guess the focus clearly in the near term, perhaps in the medium-term is absolutely taking the opportunity. Just trying to understand, over the next few years, that is a part of retail, should we be expecting a bit of a pressure on the retail combined ratio as a result, albeit a higher absolute profit?

And the second question is just thinking about the July loss activity, you mentioned on the UK flood losses. I guess you also have some European flood losses. So any comment on that would be helpful. Just really thinking about perhaps retention levels or Kevin, you can provide that, that would be great. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you very much. It's Bronek here. I will act as the sort of question coordinator between the different areas. But as those are both financial, the first question about how we expect DPD to deliver an impact on profit profile of retail going forward? And the second one is really about the financial impact of the floods. I'll hand those both to Aki.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. Hi, Will. I guess, taking the second one first, I think, is straightforward. Of course, we've had deferred events in UK and Europe. We expect those to accumulate between single retention, which will be about GBP10 million to cover those events. In terms of the DPD business, I guess in terms of the overall economics, and now it's not the time to kind of go into the detailed economics, I guess the comment I was making firstly that we're writing business at attractive loss ratios. And for us, that is the key KPI that we're looking at.

Expenses are elevated, and I would expect they will continue to be elevated for a little longer. Because as you said, we are striving for growth. And given those attractive loss ratios and the secular change in consumer buying behavior that you just heard from Kevin and the fragmented nature of the market, the right interest to do is continue to pursue that growth. And we do expect the US digital business to become a growing part of the overall retail business.

Perhaps of course, we will start to generate some efficiencies on the expense ratio as well. And we would expect to see that start to come down. We continue to expect our overall retail business to achieve -- to be within the 90 to 95 branch range by the end of 2023. So no change there.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Aki. Coming to the next question please.

Operator

Of course. Our next question comes from Kamran Hossain from RBC. Kamran, please go ahead. Your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning, everyone. Three questions from me, but that's all just from a good luck with kind of I guess the future and thanks for everything over the last 10 years or so. The three questions I have based on the resale presentation, which I thought was fantastic. The first question is just on the market side, when you kind of flag the 16 billion kind of where you think your real market on the face of addressable market is less 130 billion, how much is excluded due to product offering versus risk appetite and kind of which products are rolling out next and how fast you're saying that you will be kind of grow that substantially. And the second question is just, could you give an indication on retention in DPD versus the rest of the retail book, retail has got a fantastic retention ratio should essentially and kind of whether there is any major differences and kind of if there any kind of key drivers for that versus elsewhere in retail? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Great, thank you, Kamran and thank you for your good wishes, clearly those are both to do with additional partnership and direct, the first one of us in a product change and how we see that evolving and the second on bulk retention levels, I'll hand across to Kevin.

A - Kevin Kerridge

Well, thanks, Bronek. So let me take the second question first around retention, but what I would say on that Kamran is our retention rates are in line with market standards. So, obviously not going to give you a figure, but they're in line with the market, which is good. In terms of the gap between the 16 billion and 130 billion, I mean we're really excited about our plans over the coming years to expand from 16 billion out to 130. And you're absolutely right that there is definitely opportunity to continue to round out and fill gaps in our current general liability and professional liability.

But I think by far the two biggest opportunities are around continuing to expand the footprint of our BOP product in pulp is a significant market in terms of right, 10s of billions of dollars and our current state and industry appetite is relatively small. So as we move towards the end of this year, we're already on the journey to actually expand that footprint, it's more of a national geography and more industries, so that's our own manufactured underwriting. And then equally the other opportunity is to look to work with other another carrier or carriers to do something on workers' comp.

So our aspiration over time, as well as a customer being able to buy a Hiscox professional liability which is underwritten by us, alongside that they could buy workers comp from another carrier in our shop window. And the advantage to us is it's a nice risk free income stream for us and it also improves the stickiness of customers overall as we get bigger, bigger share of their wallet.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great, thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

The other thing I would which I think really come up in the presentation is the ability to roll out the Business Owner's product, the BOP product is being facilitated by the fact that the new IT system has been rolled off now in Q3 and Q4 and that will give us more flexibility and more access to that broader product set. So the tech capability as you all know we've invested within a lot over the last 3 or 4 years. This is where it begins to pay off for Kevin running the business on a day-to-day, week-to-week basis.

Let's move onto the next question please.

Operator

Of course. Our next question comes from Andrew Ritchie of Autonomous. Andrew, please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So, hi there. The first question, thank you, I was a bit confused on your commentary around expenses -- on the Group expense ratio. I think you sort of try to give us a normalized base, but when I look at the detail of the expenses breakdown I think so 10 in the accounts. I am surprised that some of the deflation year-on-year and some items, so I just -- let me just give as a sense, is there some type of investment or salary increases or investment to occur in the second half that just clarify exactly what you were saying on expenses would be useful.

So, Kevin, I'm just curious on your perception around the acquisition cost of business in DPD, I think the acquisition cost with some of the platforms is very similar to brokerage commission in levels, some carriers have talked about inflation in that because there's quite a lot of competition to get on some of these platforms even though they're proliferating. So do you see a lot of pressure on the sort of acquisition cost to get your -- it is where in some of the platforms or maybe sort of comment on that would be useful.

Final question, I guess we've been surprised over the years sort of embedded cat load especially in London Market, so we've been even when is helping high profile cat has been quite a lot of attritional type cat noise, especially in the property book. Can you talk about mid-80s is where you're writing new business, I just wanted to ponder if you could just give us some degree of confidence to what degree you stress tested that for a full examination of trending secondary losses sort of a higher frequency of that purchase event would be useful. And finally, congratulations Bronek on your retirement, hopefully we'll hear from you again before the end of the year, I hope your successor is elephant in his outlook and industry comments in the Annual Report, which have always been a good read, but thanks for that.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Andrew. So, Joanne's will go through that I might sort of actually I chose to do that last question around what we've done in the feather. So first Aki on some more color on Group expenses, then Kevin I guess on the acquisition cost. I'd say there is a benefit being a first mover. We have been talking to a lot of these people for a long time, but Kevin will be able to sort of help you on that. And then to Joe for the property and what we've done to improve the underlying cat exposure within the books? Aki?

A - Aki Hussain {BIO 19739719 <GO>}

Sure. Thank you, thank you, Bronek. I guess in terms of expenses, the key let's see there is half-year expense ratio was acquisition and admin expenses went up 44.9, let's call it 45%. And I guess what I was trying to do there is compare it to the more normalized period which was back in 2019, 2020 as you can imagine for a range of reasons was exceptional and the equivalent figure in 2019 was 46.5%.

And hence the comment that the expense control measures and the focus on expense to decline over the last 12 to 18 months is looking to take effect. And I guess your comment on the figures that you've seen in those 10, where certain elements of the costs are actually lower in absolute term year-on-year in particular with salaries and associated costs. There still be (inaudible) that we have taken measures to auto expenses and we have been certainly in our group function during the course of clearly part of 2021 a number of rules have been reduced and that's all part of our activity motivation measured going forward.

So there isn't pent up investment. The only thing I would add to that is in the first half our marketing expenditure which is out here in the notes has been moderated simply because again many of the countries operating have been in lockdown. I would expect the marketing expenditure to increase in the second half.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Kevin?

A - Kevin Kerridge

Okay. Yeah, so my question on the partnership side, you're absolutely right. We have been at the front of the line or over 100 times now as part of. I would think on the front line because we're first mover of status, the fact we've got a very progressive mindset and the fact that capabilities have been ahead of the market in terms of ease of integration, so haven't really felt any pressure there on acquisition costs because people really want to work with us.

On the direct side, I mean clearly when we started out, we were heavily reliant on Google paid search. And again you're right that those costs are going up every year. So overtime, we have diversified our acquisition activity away from paid search, we still do some obviously, but more and more of what we acquire in the direct business is through natural search where we spent over 10 years obviously building those rankings. And also let's not forget the investment, Aki was talking about in terms of investment in the brand, what were our brand awareness is over 50% now in the small business space, which really helps reduce acquisition costs.

So feeling in a pretty good place there, Andrew.

A - Bronek Masojada {BIO 1776109 <GO>}

I mean I think, Andrew, I think you shouldn't underestimate. We're talking about brands. You can see are involved in narrow costing for our target audience and through sponsored for things like major league baseball. We do get to the sort of traditional trades and professional. So that will help to something independent of sort of Google Search. So Joe, should we tell on then to the profits.

A - Joanne Musselle {BIO 19106109 <GO>}

Good morning, all. And thanks for the question. So yeah, you're right. In recent years, we have seen an increase in our attritional claims in our lens and market property portfolio. And this, coupled with an increased year for us, has led to significant remediation over the last few years, particularly in our binder portfolio in London Market, we've seen a reduction in aggregates in certain areas. And obviously, that couples with portfolio action and also three years of rate rise has now started to earn through the P&L and obviously improving the profitability.

A - Bronek Masojada {BIO 1776109 <GO>}

Good. Thank you, Joe. So moving on to the next question, please.

Operator

Of course. Our next question comes from Freya Kong of Bank of America. Freya, please go ahead. Your line is open.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good morning. Thanks for taking my questions. So you've touched on this briefly that you talked about Asia investing in the retail business, given how good the opportunity is right now. When can you provide an update on your plans (inaudible) and quantify any other investment you've planned for this year? Are your brand building campaigns and marketing expenses, DPD captured in the current underlying retail combined ratio guidance of 97% to 98%?

And secondly, on cyber, could you elaborate on the incentives you're giving customers to come to your training academy? Do you think rate intervention might be needed to improve the quality of the book? Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. In terms of the yearly investments in the brand, to me, it's always been a basis prior of having those profits flowing through from the big ticket business and then reinvesting some of those in retail that's how we provided the initial investment to Kevin and the team to get up and running and we've continued to build that going on. In terms of the impact of the guidance we provided for this year, we would expect to operate within that guidance for the balance of this year, and I'm sure we'll be going into next year, when Aki takes over, he will provide updated guidance and clarity about where we're over investing and what's core underlying investment.

In terms of, I don't know Kevin you want to add anything to that. And then after that we'll go to Joe about the cyber. Thank you.

A - Kevin Kerridge

Bronek, I think you really captured the essence there, which is we do expect to operate within the existing guidance for this year, our plans for building out the brand are factored into the 97% to 98%. You're also seeing in the results today, the benefit of the strategy that's been operating for a pretty long time. And we're seeing the profits begin to flow-through from the big ticket business, both London Market and Re and ILS. We are optimistic about the future. We've seen solid rating momentum in both of those businesses.

And in fact, much of the business that we wrote in the second half of last year and into this year is yet to earn through over the course of the next 12 to 24 months. So we're optimistic about the flow and emergence of profits from those -- from the big ticket businesses. And with that creates the financial flexibility to think about how we might capture even more of the growth opportunity that you just heard from Kevin and as we develop our plans on that, which we will be doing towards the back end of this year early next year, we'll be able to review more of that as we go forward.

A - Bronek Masojada {BIO 1776109 <GO>}

And I would just add to that, Freya. I mean, remember that the US digital (inaudible) business has grown by 30% year-on-year at the current level of investments. And I know, as I sort of referenced earlier on, the investment in operational capability, the new technology platform, which is being rolled out. And then other areas is critical to maintaining that growth, and that's a focus going forward. So investment isn't always just tracing marketing. It's also on the broader infrastructure.

The API connectivity is a critical area of competitive activity, and we have a great capability in there and a lead in terms of where we are. So those are all the things which support that beyond just brand marketing.

So over to you, Joe, in terms of the cyber question as to how we're incentivizing people and what else you're planning to do in that space.

A - Joanne Musselle {BIO 19106109 <GO>}

Thanks, Bronek. So yeah. So as I mentioned, the CyberCare Academy is a training program that's really aimed at our small customers. So these are the small businesses that really don't have access to the same level of IT security and IT training that maybe some bigger organizations have. And really, what we see in that space is human error. So an employee clicking on a link that they shouldn't, et cetera, is still, by far, the biggest source of claims. There's a training around cyber risk and highlighting areas for caution is really key. So we intensified our customers, things like reduced deductible. The benefit that we see, of course, is as I said, the people who have taken the program, actually, we do see defines a good. Things like early time of the reporting. So these customers are more aware. And clearly, it's prevention, but also if there is an issue, they report their claims earlier.

We're also seeing benefits within the customer retention. So again, customers that have gone through this training program, we see the benefit in terms of retention. In terms of some other things that we're doing, cyber, as I mentioned, is clearly a hot topic for the industry. And those increased ransomwares that we're seeing across the market, clearly having an impact.

As I said, we've really changed our underwriting appetite, where we're really refocusing our bigger ticket business on higher attaching and our retail business on the smaller customers. So we're also looking at the product proposition that we offer our customers and also investing heavily in technology, whether it's around modeling, but also in terms of the risk mitigation, which clearly is the most preferable to prevent claims from (inaudible).

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. Great. Thank you very much, Joe. Should we move on to the next question, please.

Operator

Yes. Our next question comes from Ashik Musaddi from J.P. Morgan. Ashik, please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you and good morning, Bronek. Good morning, Aki. Just a couple of questions I have is -- I'm just thinking about this 90% to 95% combined ratio guidance, you still have for 2023. I mean, if I look at the first half combined ratio, ex-COVID (inaudible) is 96.7%. You're expecting the expense ratio to improve by 1 percentage point. So shouldn't we be a bit more optimistic that like 95 or just sub 95 you can take by 2022 as well. So that's the first one. Given -- especially given that the pricing is coming through, and you mentioned, if I'm not wrong, that claims inflation is lower than the price increases. So that's why.

The second thing is, how do we think about like the capital basically after taking this 10 points to 15 points of hit that you are flagging? I mean how much strain does the 10% growth in business put on the capital? I mean, would you still be okay? Because if you think about 10 points to 15 points of capital knocking off because of this regulatory changes, we are at 195 in pro forma. So how do you think about that 10%, 15% growth if you try to do on your business? Or would you say that you would be thinking about more management action to reduce the BSCR next year to actually accommodate the higher growth? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Ashik. So I guess question number one is around given the good performance we've seen, are we going to accelerate the achievement of the 90%, 95% target. And the second one is capital and what we can do to ensure we have the capital to fund the growth. So it's a 2022 target, I think I won't be here. So it's very clear Aki has to take that going forward. And I'm sure you can then carry on to answer the question on the capital as well. Over to you, Aki.

A - Aki Hussain {BIO 19739719 <GO>}

Sorry, I was on mute. Thank you, Bronek. Ashik, hi. Look, there's no change to our guidance for this year or indeed for 2023. And you're right, we are seeing some positive trends coming through. We're making traction on the expense ratio. Pricing is coming through. The thing to bear in mind on pricing is, our retail business is largely casualty is longer tail, and therefore, it does take longer to come through to the P&L. We're optimistic and positive about reaching the guidance that we've set out, but there's no change to that guidance. And frankly, if we get that soon, you will be the first to know, along with the rest of your colleagues.

And then in terms of capital, again, a very good question. Look, we made solid progress on capital in the first half, both through increasing non funds as a result of capital generation of profit and also a reduction in the required capital as a result of the LPT transactions that Joe has completed.

Now as we look forward to the end of the year, you're right, we've got -- we have a 10 point to 15 point reduction expected from the BSCR, potentially a little bit more from -- sorry, and also a small adjustment for the dividend. But against that, we do expect to generate capital in the second half as well. I'm not going to give you a prediction, but we do expect to generate capital in the second half. So those reductions will be moderated.

Now the key thing for our business and how we think about the capital for our business is the biting constraint is the desire to maintain an A rating from S&P. And that's been a long-held sort of desire, and it's been a requirement that we've held within the business. The broad equivalent for that under the BSCR capital regime is a ratio of around 165% today. And with the BSCR strengthening, that is likely to be a drop below 160. So there's plenty of headroom still available. Nonetheless, I expect the ongoing capital generation to be sufficient to execute our business plan and to support the growth of the business as a whole.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very good. Yeah. Thanks a lot. Thank you, that's very clear.

A - Bronek Masojada {BIO 1776109 <GO>}

Great, thank you. Shall we go to the next question please?

Operator

Yes. Our next question comes from Ian Pearce of Credit Suisse. Ian, please go ahead, your line is open.

Q - Ian Pearce {BIO 17168137 <GO>}

Hi, thanks for taking my questions. The first one was just on the reserve buffer. I think at the full year you sort of said the reserve buffer was at the top end of the range and that's actually moved up in the first half despite the sort of derisking that you've done with the portfolio loss transfer. So, if you could just touch on sort of how you're thinking about the reserve buffer whether that's sort of now above the top end of your sort of target range. And also if you could touch on the frequency developments, I think you've mentioned previously you had some positive frequency development that you hadn't recognizing, sort of waiting to see if that played out, if you still have those in results as well would be useful.

And then just on the US DPD business. Kevin, in terms of that sort of $16 billion target market, I don't know if you could sort of clarify how much you think that target market is currently being digitally traded, thought of what your market share of the digitally traded business is at the moment. And also just if you could touch a little bit more on the competitive environment that you're saying we've had a lot of fundraising in the space, some of the incumbent talking a lot more about targeting SME business, but here you are saying is your sort of best competitors who you are competing against when you're going through some of the digital channels that be really useful as well. Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. All right. Thanks, Ian. I'm kind of on the reserve buffer to actually -- I would just sort of remind you that in identity it was 362 million, I mean now 348, so the actual number has come down. And so you're really talking about quite small sums of money, but I -- to full that out and then we'll go across to Kevin. So Aki once you could continue on that.

A - Aki Hussain {BIO 19739719 <GO>}

Sure, Bronek. Hi, Ian. You're right, I did say that the reserve buffer at around 10% was at the upper end of my expectations and this is slightly above the upper end of my expectation. I guess the lesson learnt, if you can't land based on the head of a pin, so but as you heard from Bronek the absolute quantum of the results were pretty slightly, slightly lower than it was at year-end.

I think it's fair to say that the reserve resilience is now even stronger than it was at the year-end because the -- I'll give you some of the more sort of volatile or the areas where we've seen high level of volatility now has a significant amount of reinsurance cover and therefore we have this remaining reserve over the remaining over the rest of the book.

I would expect the aggregate reserve buffer to go-no higher than the current number, now just 1.5% [ph], if you could see the reserve, sort of the small guys because it can be tough on the head of a pin, but don't expect it to go above where it is. Now we are comfortable more than comfortable where the buffer is. To address your other question on frequency and development, the way we've kind of reflected that in the P&L is on the short tail lines, which typically have the property lines if we're seeing a frequency benefit, that is going into the P&L and specifically in the retail book we've seen some of that in UK APC business in the first half.

But as you know, particularly in retail, the vast majority of the business that we write is casualty and where we've seen frequency benefits there where we think they are may be well be related to sort of the sporadic lockdowns and if I said the measures are in place, there was being -- we're not giving credit to those, so those are being retained, but noting the reserve buffer, they're actually in the actuarial best estimate, so they won't be visible to you.

We will continue to see how that experience plays out. It is still somewhat early. We do need to see to actually the societies and economies open up properly and they are hopefully now doing and we'll know much more toward this frequency benefit is real and therefore can be taken into P&L probably next year.

A - Bronek Masojada {BIO 1776109 <GO>}

Great, thank you, Aki Before we just go across to Kevin, I'd just say in terms of our ability to understand the detail of what's going on within the $16 billion market, it is quite opaque in terms of market shares and who's got worse and so on and but Kevin is clearly the expert on that and the competitive landscape.

A - Kevin Kerridge

Yeah, thanks, Bronek. Hi. So as I said earlier in the webcast, direct-to-consumer is growing fast, but it's still very small and we believe we're taking a significant share of that market because of things like Google rankings on both natural and paid search. On the partnership side, I mean it's hard to say because it's still a lot of business in traditional channels. I think the good news is that we have seen a kind of wholesale acceleration of embracing digital across all channels. And you know COVID has been a big impact there as people start working remotely, just embracing having to embrace digital models has obviously been a bit of a tailwind for us.

And the emergence of platforms like Bold Penguin, they are kind of greasing the wheels of commerce in digital insurance where we are very strongly plugged into with our APIs, that will surface really well. So I can't give you a percentage of market share by do now that we're taking a good chunk of new business is gravitating towards digital.

In terms of competitors, I bucketed into 2 areas, I mean clearly there is insurer tech start-ups and I think we don't -- when I'm worried too much about that because what we've mentioned over 10 years is get that balance right between really driving growth, but making sure that we keep an eye on structural profitability of loss ratios. And if I'm a new entrant today, there is a lot of pressure to grow, grow, grow and but that that's in our rearview mirror. So I feel really good about the scale we've got that will drive profit for us. And then in the main stream be the second bucket, the mainstream brands that you know and love in the US market and we're seeing those emerge not so much really indirect, but more in the partnership space, but again we feel really good about being ahead of the pack in terms of the capabilities in our integrations.

A - Bronek Masojada {BIO 1776109 <GO>}

Great, thanks. Yes, African -- extend what Kevin saying about being underwriters of heart and that clearly is actually 7 Kevin has said, what you need to have a quality book is a good underlying loss ratio. Over time you can use scale to manage the expense ratios down and leverage the brands especially in the market. But if you have good underlying loss ratios that is really very difficult to overcome especially in America given the pricing changes all regulated in a way that they are not in the UK and we have created a good solid foundation of over $400 million and that's really good for Kevin to be able to use to and that gives us credibility quite frankly as a partner with -- you are the partner with somebody who is brand new in this space, but some who has really got an in force $400 million book with the infrastructure to answer telephone calls, integrated by APIs and pay the claims when they come.

So let's carry on to the next question.

Operator

Of course. Our next question comes from Tryfonas Spyrou from Berenberg. Tryfonas, please go ahead, your line is open.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Hi, good morning everyone and congratulations on strong results and I'd like to wish Bronek a happy retirement. I just have a question on cyber. Can you perhaps give us some color on whether the price increases experienced over the last 12 months or so have been adequate to keep up with the increased risk premiums? And on that, I think (inaudible) mentioned in the earnings call last month (inaudible) prices are strongly driven increased capital requirements of the business due to the partner systemic risk is now considered to be as greater due to exposure accumulations. Any comments around those two would be greatly appreciated. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you. So clearly, on the side, we will go first to Joe, and then after that the capital to Aki. Joe?

A - Joanne Musselle {BIO 19106109 <GO>}

Thanks, Bronek. So yeah, as I mentioned in the presentation, so price increases are accelerating in cyber. So if I look back into 2020, fiber wasn't the lead line in terms of price acceleration as I look into 2021, it certainly is. I mean, if we look at the last six months, we've got about an aggregate 30%. So in the last quarter, there's a 30% rate rise. And if I look back to 2019, it's about 60%. So I think your question is that adequate in terms of is that keeping pace with risk premium. And I'd say two things is that's on its own. It's probably not that, that coupled with the portfolio actions that we're also taking. So pricing is clearly one part of the toolbox. The other part of the toolbox is looking at where we write. What lines you write, whether we write primary or whether we write excess? What parts of the portfolio, what sectors do we write? And clearly, we've made some material change as well into our portfolio shape as well as the terms and conditions in addition to pricing. So I think there's a combination of things that are happening in the fiber market.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. Thank you, Joe and over to you. Aki

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. On the capital side, we have seen the aggregation build up or actually the work that Joe has just referred to that just been leading over the last couple of years. We've been managing our overall aggregate exposure to cyber. And that obviously is included within our capital models. But I think your central point is right that as we've learned a little bit more about this type of exposure over the last sort of five or 10 years, capital requirements have increased.

A - Bronek Masojada {BIO 1776109 <GO>}

And I'll also just add on that is that, don't forget that in the back of the analyst pack, we have some quite comprehensive disclosure about our exposures to both natural catastrophes, IDSs and also some specific events, including cyber, because we think it's important for us. Cyber is not a risk-free business people are realizing. That's very different to where they people believed five years ago. So let's go on to the next question

Operator

Thank you. And our final question today comes from Ben Cohen of Investec. Ben, please go ahead. Your line is open.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. And if I could begin by adding my congratulations to Bronek for what he's achieved at Hiscox over the years that he's been there. And then just to sort of to move on with that to ask Aki for any first thoughts he has as to what he might look to be doing differently when he steps up in terms of any, I guess, strategic emphasis that he might be looking to place differently?

And the second question was actually just really a clarification. Have you quantified actually how much benefit there was from lower than sort of expected losses in the combined ratios for the three different divisions in the first half of the year, that would be helpful. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Ben. I'm not sure we have on the second one, but I'll leave both of them to Aki.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. Hi, Ben. I guess answering your second question first. We haven't quantified the benefits from lower-than-expected losses. So I'll kind of stop there. In terms of thoughts on doing things differently and strategy and so on. Well, I guess as you all know, I've been part of the leadership team here for the last five years, working alongside Bronek. And I've already had and being part of the team that's been influencing that strategy and how we do things. And I believe in the strategy of the business. It's worked well over the last 20 years. What you've seen over the last 20 years is how we execute on that strategy evolves faster as the business evolves as the external market evolves as technologies evolve. And that you can expect, we will continue. But the overarching strategy is a sound strategy. It's enabled us to build a retail business entirely organically from scratch to near enough EUR2.5 billion, which is where it is now and to allow our big ticket businesses London Market and Re & ILS to prosper and deliver.

I guess right now, Ben the focus for us and focus for me is to continue on that path and execute. Because as I look across the business, I see opportunities in every part of our portfolio. I see that in London Market, the hard yards that the London Market team have done over the last four or five years in what has been a prolonged soft market and now beginning to pay off.

We're leaning into that hard market, and we will continue to lean into the hard market and deploy capital. We're seeing a similar trend in RE and ILS. We have new leadership in that team, and we're also again seeing the same trends in terms of rate increases and margin expansion now coming through into the P&L. And of course, in retail, we've had a long-term structural opportunity, which we've been building out through our broker channel, which is still the mainstay of our overall retail business. And so we stay focused on building those broker relationships and the service to our broker partners.

And then, of course, frankly, the escalating the huge opportunity, we're now seeing as consumer behavior is changing in terms of the buying patterns of how they purchase and consume insurance as closely. It's a very list, where I can add to what Kevin has already said. It's a fantastic opportunity. We're right. We're four square behind it, and we'll be continuing to invest significantly in building out that opportunity.

Q - Ben Cohen {BIO 1541726 <GO>}

Great. Thanks very much.

A - Bronek Masojada {BIO 1776109 <GO>}

And again, I guess -- I get to have the last words for the last time. And I can only -- I've clearly been the CEO a long time, and I've always wanted to hand over Hiscox into my successor in the rising market. And as you just heard from Aki, I also want to do that when we saw opportunity across multiple areas of the business, and clearly, Aki just laid out, that's what we all see the executive here at Hiscox. So Aki, Joe, Kevin, other senior leaders, you all don't know how my wholehearted support. And I expect it to change. In fact, as a shareholder, I would want it to change as the market opportunity changes.

And can I then just turn to all of you collectively and individually. Some of you like you Ben and Nick Johnson, I think we met back and Nick, I know we met back in 1993, when we -- yes, 1993, when he was fresh out of University. And I think Ben you were then too, and you've covered us in various guises throughout our -- the entire period that I've been group Director and then CEO.

Others, like Andrew, like Kamran, we've got to know in more recent times and others too like Freya and others here more recently. But I've always regarded analysts, I have always agreed with what you said about us, that's only to be expected. But I've always regarded you all as critical friends. And quite frankly, your insights on Hiscox have helped us make it a better business because you see things and compare us to others.

And sometimes, we've over-delivered against your expectations as we have today. Other times, we've underdelivered, but that is the nature of running a business. It's not landing a helicopter on the head of a pin quarter-on-quarter. So thank you for your support. I'm sure we'll see you at various events, but I don't think you'll be hearing from you again in something like this as CEO. It's over to Aki, over to Joe, and I wish them all the best of luck for the future. Thank you all.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect your lines.