Q1 2021 Sales and Revenue Call

Company Participants

- Alex Maloney, Group Chief Executive Officer
- Darren Redhead, Lancashire Holdings Limited
- Natalie Kershaw, Group Chief Financial Officer
- Paul Gregory, Group Chief Underwriting Officer

Other Participants

- Andrew Ritchie, Analyst
- Ben Cohen, Analyst
- Emanuele Musio, Analyst
- Faizan Lakhani, Analyst
- Freya Kong, Analyst
- Iain Pearce, Analyst
- Jelena Bjelanovic, Head of Investor Relations
- Kamran Hossain, Analyst
- Ming Zhu, Analyst
- Nick Johnson, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Hello and welcome to Lancashire Holdings Limited First Quarter 2021 Results. Throughout the call, all participants will be in listen-only mode and afterwards there will be a Q&A section. Please note this call is being recorded.

Today, I'm pleased to present Alex Maloney, Group CEO; Paul Gregory, Group COO; Natalie Kershaw, Group CFO. Please begin your meeting.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you, operator. Good afternoon, everyone. We'll now go to our investor presentation. So if you can please note our safe harbor statement. The Q1 highlights. In Q1, we have generated our strongest ever gross written premium. We have demonstrated our ability and willingness to deploy additional capital into the hardened market, which is in line with our long-term strategy.

We are still declining more business than we are writing. The current opportunity means you have to seek the best business and remain disciplined on rate adequacy, not headline rate changes solely. Our focus is on the aggregate rate change we have seen since 2017 across the majority of our portfolio. The RPI we have seen is in line with our expectations, but the opportunity set is up.

Our Q1 underwriting performance. Winter Storm Uri is in line with management's expectations for a loss of this size. It's historically higher cat loss to have in Q1, which is a reminder for the industry that great momentum needs to continue. On COVID, our loss estimate remains unchanged. Little change -- we're seeing a little change in our claims data. We're still pushing any suggestion about the maturity of this loss as we are still moving through COVID. But we are comfortable with our number and any change to our COVID loss does not derail our strategy. Absent Uri, all our underlying performance looks strong, and our strategy is on track.

On capital. During the quarter, we had a highly successful debt raise, which provides efficient capital, which is all the way an agency qualifying. Therefore, we have sufficient headroom for our budgeted growth throughout 2021. On investments, our investment portfolio is in line with management's expectations, where we will remain short duration.

We go to Slide 4, please, Jelena. We are taking advantage of the harder market, and our sole focus is to maximize ROE. We look to manage our business across all stages of the underwriting cycle to maximize fully converted book value per share. This means that we will aggressively grow at this point of the cycle and retreat when the balance of the underwriting opportunity wanes. Every action we take is to improve investor returns over the long term.

On diversification, our diversification into new lines of business is solely to improve returns. Each product line has to produce acceptable standalone results. Diversification is a byproduct, not a driver for us. Less volatile capital-light product lines can be written at higher combined ratios and still generate attractive returns.

Since 2018, we have continued to build out our product suite as the underwriting opportunity improves. Our focus is on underwriting talent, the right underwriting returns and culture. We remain disciplined, but the opportunity set is up, and we expect to continue to grow whilst returns continue to improve. When looking at our business, we are seeing acquisition ratios declining as the underwriting opportunity improves. And our expense ratio is also declining as we grow. Our current strategy improves our combined ratio.

Slide 5, please, Jelena. Slide 5 demonstrates we've been patient during the soft part of the insurance cycle, where we have grown the under -- we have been improving underwriting opportunity since 2017 in line with our long-term strategy. We will continue to grow, whilst the underwriting opportunity remains strong, and our DNA of the business remains unchanged.

I'll now hand over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thank you, Alex. If we could move to Slide 6, please, Jelena. As Alex has noted, we're extremely happy with our top line premium growth in Q1. Market conditions were in line with our expectations. This has allowed us to deploy the capital we raised in the lines of businesses we had targeted for growth, as rating moves to a level were far more business reach rating accuracy. Each segment continues to show positive rate momentum with a portfolio of RPI of 112%.

We're now in the fourth year of cumulative rate improvement. In many of our product lines, we are at attractive rating levels that allows us to speed up the rate of growth. And we have the capital available to support this. Within the P&C reinsurance segment, every class has delivered growth. In line with our strategy, the majority of Q1 premium growth in this segment has been driven by the proxy reinsurance lines.

We've delivered substantial growth in both property catastrophe reinsurance and property retrocession, with both these classes demonstrating double-digit rate improvement. This growth is from new business, increased rates and growing our relationship with existing clients. Also within the P&C reinsurance segment, we started to underwrite casualty reinsurance, specialty reinsurance and accident and health. All three classes have started the year well, and we are confident in achieving at least the upper end of the $40 million to $60 million guidance previously provided.

For the property insurance segment, we have grown the property D&F insurance portfolio as rates continue their upward trajectory, and we deploy more capital across both the Lloyd's and company platform into this class. D&F growth offset by premium reductions in terrorism and political risk classes. Market conditions here remain stable, before the flat rating environment, but the reduction in premium is driven by the political risk book where the majority of risks are one-off in nature, and there is no renewal pattern, which means we can have lumpy premium quarters. This is also a class that is linked to economic activity levels. So, we expect some demand pickup as the world gradually recoveries.

The energy segment continues to see premium growth given the continuing maturity of the power and downstream energy portfolios, which is helped by a favorable rating environment as momentum in these sub classes continues. We've also grown our energy liability portfolio as this subclass also experiences strong rate improvement. Within upstream energy, it remains less dedicated, albeit still positive, and our appetite here remains relatively stable. Both the marine and aviation segments have seen year-on-year premium reduction. In both instances, this is purely down to timing. In aviation, where Q1 is traditionally a quiet quarter anyway, there are a small number of contracts that are due for renewal later in the year. In marine, there were a small number of large premium multi-year contracts written in Q1 last year, not due for renewal in 2021.

Market conditions in both aviation and marine remain favorable continued great momentum and our outlook for 2021 premium growth in both segments remains positive, whilst acknowledging the potential demand headwinds that make -- that are likely to impact the aviation market later in the year.

In marine, we'll be expanding our marine liability offering when our new underwriter joins us later this year albeit the premium -- the top line premium impact will not start to be seen until 2022. As ever, we continue to assess new underwriting opportunities all the time and if we can bring in an additional underwriting talent to the group that can improve our underwriting return over time then we will do so.

Turning to Slide 7. Our business mix between high and low attrition business can change given that we grow and shrink our top line quite dramatically given underlying a market conditions. Market conditions in some of the specialty insurance lines with higher attritional loss ratios, such as aviation, energy and marine, started to improve more favorably and at a greater pace than other areas of the portfolio. So, we grew into this favorable market and as such, the business mix shifted.

To reiterate what we have always said, we are agnostic as to what the mix is. The focus is to maximize the return on capital from underwriting and each product line can run at a different loss ratio, while still being accretive to the underwriting return on capital. Before I turn over to Natalie, I just wanted to give a quick update on the Japanese property cat renewals.

I'm pleased with the rate increases we were able to achieve and the new business volumes we saw, which allowed us to further grow our Japanese portfolio. We've had a longstanding relationships with our Japanese clients, and we continue to support them as they look to buy more capacity.

I'll now hand it over to Natalie.

Natalie Kershaw {BIO 21394441 <GO>}

Thanks, Paul. Hi, everybody, I'm going to talk through some slides on our business mix and also capital. If we can go to Slide 8, Jelena. Following on from what Paul had said about changes to business mix, Slide 8 gives some further details around the relative benefits of different lines of business. Where lines have heavy exposure to catastrophe losses, there is a high capital charge due to the volatile nature of the business written.

The benefit of this type of business is that the underlying attritional losses are low, and therefore, in light catastrophe years can be very profitable. When you look at the more attritional lines, they are much less volatile and require significantly less capital. However, as long as these lines are profitable, they are accretive to return. Building a more diverse book of business with some new more attritional lines that are still profitable gives us a statable earnings stream. Higher volumes of business also increased premium earnings over time, leading to lower expense ratio.

The relatively wide guidance on the attritional ratio of 35% to 40% that I gave last quarter, and as noted on this slide, is due to two main factors. Firstly, our business mix can change quickly as market conditions change, affecting the underlying rate of attrition. And as we enter new lines, we tend to reserve conservatively as we get comfortable with our performance.

Secondly, our traditional specialty lines, such as marine and energy, are exposed to a regular, larger losses, such as (inaudible) sinking oil rig exposures and so on, which could have a material impact on the attritional loss ratio in the period in which they occur. As we have always said, our focus is on ROE as measured by the change in fully converted book value per share, and we look to delever and increase return to shareholders at all times. We tend to be agnostic on business mix.

Moving on to capital, starting on Slide 9. There are two main points to note on this slide. Firstly, flexible capital management has always been a cornerstone of our strategy and reflects our capital depending on the underwriting conditions that we see in the market. This has meant we have returned $2.9 billion to shareholders since inception, including the current final dividend payment. But in the last few years, as rates have increased, we have retained capital within the business and have raised both equity capital and additional debt capital to fund underwriting growth.

Secondly, the chart on this slide shows that AM Best is our most constraining capital requirement. We always aim to keep some headroom over this requirement. The quantum of headroom is flexible depending on market conditions, but generally position for us to withstand a reasonable cat loss and maintain adequate capital post the event to take advantage of any subsequent rate hardening.

Moving on to Slide 10. Slide 10 gives a bit more flavor around our strong capital position. Our capital adequacy is measured by AM Best on their standard model is higher for return period, and as the chart shows, it's higher than the peer average. One reason for this is that we monitor capital against the AM Best cat stress model rather than the standard model. And this requires a one in 100 year Worldwide All Perils PML to be deducted from capital. As we write a relatively high proportion of cat business, this reduces our available capital under AM Best considerably.

More importantly, we hold a conservative capital provision, such that post-event we can react quickly and continue to write business. This enables one of our key strategic aims to operate nimbly through the cycle. Our recent successful debt issuance has improved our capital position as all our debt is now allowable under all the rating agency and regulatory model. While previous debt was not allowable capital for the BMA, so the issuance gives a significant boost to our regulatory capital position, which is further detailed on Slide 11.

On Slide 11, the waterfall chart shows how our regulatory capital position has developed since the end of 2019 and includes the pro forma 2021 position, incorporating the debt raise and anticipated new business in 2021. To be clear, the 2019 and 2020 ratio do not include any debt capital. Most importantly, this diagram shows that we still maintain a strong regulatory capital position following a one in 100 year Gulf of Mexico wind events. We expect our BMA solvency ratio to be comfortably above 200% going forward depending on market conditions.

To sum up, whilst our attritional loss ratio may move around quarter-to-quarter and year-on-year, our focus remains the same, to deliver an increased ROE for our shareholders, which is now supported by the better underwriting environment, Paul has just talked about. Active capital management remains a cornerstone of our strategy, and we remain strongly capitalized.

And with that, I'll pass it back to Alex.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thanks, Natalie. Slide 12, please, Jelena. ESG. We aim to earn a sustainable profit business, whilst contributing to society. In the environment, we partner with our clients during the fighting period of climate change to have them recover during periods of disruption brought by climate change. Our Lancashire Foundation supports some of the forest sections of the world communities most affected by climate change. In social, we believe a strong company culture is directly inked to success.

We listen to our colleagues through better engagements. And we want the best people from all communities and background with no barriers to entry and a strict meritocracy.

In governance, we constantly have dialog with all stakeholders and are completely aligned. And we have a culture of positive change, risk learning and constant improvement.

Slide 13, please, Jelena. To summarize this quarter, we are executing on our long-term strategy. Our growth continues to improve by cross cycle returns. We are well capitalized for the opportunity we see, but the DNA of the business remains unchanged.

We will now go to the operator for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Freya Kong from Bank of America. Please go ahead. Your line is open.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good afternoon. Thanks for taking my questions. I've got two please. First question, you've typically not disclosed your ECR with your results. Is this something that you will look to incorporate more going forward. And is there any sort of ECR level that you can guide us to that would be comparable to your minimum BCAR tolerance. And second question on Slide 10, it looks like you're operating at 60% on your standard BCAR formula. So, maybe on a stress basis closes -- closer to 50% -- of 55%, which is obviously quite a large buffer on top of that 10% tolerance. What should this ratio look like in a more normal year? Thanks.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Freya. It's Natalie. Can you just repeat question two, please, the second question?

Q - Freya Kong {BIO 20097488 <GO>}

Yeah, sure. So on Slide 10, you guys show you that on the 99.6 standard BCAR, you operate at about 60%. So, I think maybe on a stress basis, you're closer to 50%. That's still quite a big buffer above that 10% tolerance that you managed to. So, what sort of buffer should we look for in a normal year? Thanks.

A - Natalie Kershaw {BIO 21394441 <GO>}

Okay. Thanks, Freya. So taking that second question first. As I've said in my remarks, we have to reduce our available capital by one in 100 Worldwide All Perils PML and that's quite a significant amount of capital to reduce by for the stressed BCAR. So I would say we're lower than the 50% you're suggesting on that.

And then on the ECR, going forward, yes, we'll do the same kind of disclosure around this time of year. We have to submit our ECR to the BMA by the end of May. So this quarter is a good time to publish our ECR going forward. We're not in a position to disclose how the ECR equates to the AM Best ratio. But as I've said, we look to be significantly higher than the 200% going forward.

Q - Freya Kong {BIO 20097488 <GO>}

Okay, thanks.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Paul, hi there, thanks for the presentation and the capital disclosure today. Three quick ones, I think. Alex, you said at the beginning, the RPI was in line, but the opportunity set was up. I just -- I didn't quite know what you meant? I mean, are you referring year-on-year or relative to when you last talked to us in Q4? Just -- I didn't quite -- if you could just color those two statements, that would be helpful.

Second question, of the new lines that you're growing in, and you said you're putting up more conservative loss picks, understandably, what's the kind of seasoning period we would expect for those new lines? I know they're longer tail than cat, but I don't think the nature of them is that long tail. So, what's the kind of seasonal period where you would say, okay, now we can relax those loss picks?

And the final question, you provide on Slide 11 a scenario analysis with a stress scenario of a one in 100 for Gulf of Mexico. What would that -- I don't think that one on 100 has been updated for growth. What would it be roughly if I updated for growth that you expect to put in '21?

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A - Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you. And yeah, on point one, just to clarify what I was trying to say. During the first quarter, the price of our insurance portfolio was in line with our expectations. So, it wasn't actually what it was and if it's in line. And I think we previously mentioned that.

I think what we're trying to say when we say the opportunity set is up is we just saw a lot more business. And the main reason the fact is when you're in the (Technical Difficulty) marketing, the broker has the market (Technical DIfficulty). And therefore, you've got more business is done (Technical DIfficulty) just seeing more business and that very much what you saw during Q1. So the pricing is in line, the physical amount of business we saw was definitely up. The opportunities we see across the base are up. And some of that is a function of brokers marketing more heavily and pricing environment is going up.

(Technical DIfficulty) we just see more opportunity over time. That's the point I was trying to make. Is that clear?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

A - Natalie Kershaw {BIO 21394441 <GO>}

Andrew, on point two on the new lines, we would say we would monitor it for around 3 years, depending on the lines business.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. And on your question 3, Andrew, we update our 1 -- publicly update our one in 100, one in 250 in numbers at the half year. So, you'll see those are kind of next set of earnings, why we're saying as is obvious, with the growth we've put on you would to be expecting those catastrophe PMLs to be increasing given the additional new business we've written, but also the proportionately we're buying less reinsurance than we were a year ago. So, a the combination of the two, you'll see directionally those PMLs move up, but you'll see the hard data in three months' time.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

Operator

Thank you. Our next question comes from the line of Kamran Hossain from RBC. Please go ahead, your line is open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Afternoon, everyone. First question is on, I guess, the business mix and the attritional loss ratio. I really like the slide, which shows a split between attrition and kind of lower attrition business. And I kind of understand the backward-looking story attritional focus lines increased to 2020. And therefore, that ratio hasn't moved that much. I guess listening to what you've done in 2021, the majority of growth in Q1 has been from reinsurance.

And I assume that although you're planning to grow in casualty, the majority of that would be from property-based classes, which I assume have relatively low attrition. So, just trying to square that, should the attrition will therefore improve pretty sharply as this business you've written at 1:1 or kind of within the first quarter and through?

And the second question is on, I guess, the growth for the remainder of the year. We saw some of the reinsurers pull back in January. Do you think there will be a similar opportunity to kind of grow, maybe not as much as you did in Q1, but do you think there'll be a similar opportunity later in the year? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Hi Kamran, I'll take these. So I think what's probably -- obviously, in Q1, you've seen a lot of growth come through the property lines. I think, as you know, the bulk of our specialty business renews Q2 and beyond, so we're definitely intending to continue to grow in those areas. For example, we're still seeing good rate improvement in things like downstream and energy and power. We expect to see continued improvement in things like marine and aviation, as I covered off in my opening remarks.

So we've made the point, our attrition can swing dependent upon the book. That made the statement and, obviously, our guidance remains the same. But the mix you see in Q1 is different to what you'll see in the remainder of the year. In terms of kind of growth expectations for Q2 and beyond. For long as I know, obviously, the business mix is a little different than in Q1 with more specialty insurance renewing as a percentage of the portfolio in Q2 and beyond.

That said, we certainly expect to grow our premiums ahead of rates. So as we always say, we never enter any renewals or preconceived growth plans. Our decisions are going to be driven by the opportunity that's in front of us. But because I've just said conditions in a lot of these lines still remain favorable, we're seeing good rate adequacy in things like property D&F, downstream energy and power. There's a lot of business renewed in Q2. So, you would definitely expect us to grow there.

As I mentioned in my opening remarks, we had a very good Japanese renewal season. We were very happy with the rates that we saw in our portfolio and the growth we delivered. We've got Florida coming up. We'll see how that plays out. Again, if we get price inadequacy, we would be more than happy to grow our portfolio there. As I said, we'll always be driven by the opportunity. But at the moment, the rate momentum still looks good.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great, thanks very much Paul.

Operator

Thank you. Our next question comes from line of Ming Zhu from Panmure Gordon. Please go ahead your line open.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good afternoon. And just two questions from me please and first is in terms of Suez Canal, could you just give a little bit color, it's probably still early days. If that's -- what sort of exposure you're likely to get on that event? And my second question is around the rate environment. And obviously, we've seen strong rates. I mean, based on your experience and -- what's your outlook in terms of the sustainability of the current rate environment? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. I'll take -- so obviously, we don't have to comment on particular individual losses. But what we can do, obviously, it's an incident that's very well known and being covered a lot in the press and clearly going to create economic losses of some sorts. What is very difficult at this stage, given it's very early, as you noted, is how that could, indeed, transfer into possible insurance or reinsurance losses. It's just we're not at the stage yet where anyone can put any kind of numbers around that. But it's an incident in the marine market that potentially could get rights to claims, and it's something that we'll monitor as second the quarter progresses.

A - Alex Maloney {BIO 16314494 <GO>}

I think on rate change, we are confident that rate change continues through '21. And maybe now, we still believe that there are a number of hurdles for the industry to tackle, obviously COVID would be one. When the US court system opens again, when the world is back to some sort of normality, I think the gap the investment returns we're currently seeing so I think there's enough pressure in the system and enough need for returns for investors that keep underwriters honest and rates improving through at least '21.

Operator

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

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for taking my questions. The first one was just on retro spend. I'm wondering if you can sort of run us through the moving parts on retro spend. One, you sort of talked about renewal of the core program at higher rates and then being able to renew some of those peripheral programs. A lot of the growth has come in property, which I don't think is the line of business that have those quota share programs on them. So I'm just wondering sort of how we're expecting retro spend to move this year and how it's going to affect retention rates?

And then the second one is you talked about acquisition costs falling on some of the new lines of business that you're entering into, I'm just wondering whether that fall in acquisition cost is sufficient to offset the sort of move in the attritional loss ratio guidance that you've given, so sort of from a combined ratio perspective, a net positive or not?

A - Paul Gregory {BIO 16314515 <GO>}

Hi, I'll take the first question on reinsurance spend. I think in dollar terms, and we might of noted this, actually, last quarter. In dollar terms, because we're growing, and we've got more lines of business, and we're writing proportionately more business. On the inwards book, but on a dollar basis, our total reinsurance spend will go up. But as a proportion of inward income, that percentage is going to go down.

And that's for a number of reasons. In the cat lines, as I noted earlier, we are taking more risk on to our own balance sheet, whether that be retaining the little bit more of the bottom of core programs, whether that be buying less quota share on some of those areas of the portfolio, which is therefore, ultimately going to bring down our percentage, and obviously, the inwards book growing.

On the specialty lines, the protections we report are broadly in line with what we had last year. There are a couple of protections coming up later in the year on certain classes of business where we've seen positive rate improvement on the front end, which may lead us to decide to take more risk and retain more risk. So we haven't yet made those decisions. But at a high level, yes, dollar spend is will be up as a percentage, and proportion will come down.

A - Natalie Kershaw {BIO 21394441 <GO>}

Iain, it's Natalie. On your second question, on the acquisition cost, yes, there are benefits from business mix, for example, the property line tend to have lower acquisition costs than other line. So of course, we've obviously been an a property business, which gives you the benefit on the acquisition cost ratio. You also tend to see, as underwriting conditions improve, the impact from terms and conditions with the commissions also reduce on other lines of business, which is beneficial.

And then also just to note that higher premium volumes also give us a positive impact for G&A ratio. So, although we expect the dollar amount of expenses increased as we continue increasing the underwriting team. The actual percentage as we said before, we'd anticipate to come down to around 2016, 2017 levels. So, the overall impact on the combined ratio, I would say, very much depends on the business mix and the amount of businesses we are able to write this year.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay, perfect Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Thank you.

Operator

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

Q - Faizan Lakhani {BIO 22154809 <GO>}

Hi, there. Congratulations on a good set of results. Most questions have been answered, but I just wanted to follow up on Kamran's question on business mix. It's a very detailed answer, but what I don't quite get the grips with is it still feels like you've grown -- you're set to grow quicker in lower attritional lines this year. Is that fair? And does that mean that you're aiming for the bottom end of your attritional loss ratio guidance?

A question to -- as a general market question, it appears that in Florida, we continue to see a higher frequency of litigations in the Florida homeowners' market. Also, you talk about it being a very heavy hurricane season this year. Can you provide your views on this? And how does that shape your 16/17 renewal strategy?

And final question is a very basic question. You talk about gross written premium growth. How does that stack up on a net basis this -- in Q1? Thank you.

A - Natalie Kershaw {BIO 21394441 <GO>}

Okay. So I'll take the first on business mix. So we're very happy with where our guidance is at the moment, and we do expect the dividend of 35% to 40% range. And that's where we came in, as we said in our earnings update for Q1, so we're happy with that guidance.

A - Alex Maloney {BIO 16314494 <GO>}

With regards to Florida, I think absolutely you're right, I think since Hurricane Irma, lot of lessons have been learnt between, we've seen a lot of claims and inflation come through. I think like our litigation that you mentioned and it's certainly something when we're looking at that risk. We try and price in as best we can (inaudible) our pricing for that.

In terms of listening to weather experts in terms of how many hurricanes there going to be, in all honesty, that's not necessarily something that we factor into our underwriting. There can be 100 hurricanes that you'd know that made landfalls and help drop the scores, but that's something historically we've never really done. We look at pricing at -- on an expected basis. And if we think we're being paid for the risk that we're taking on then we're prepared to write that risk. But on the litigation point, absolutely, that's something that the whole market in fairness has taken on board since Hurricane Irma.

Q - Iain Pearce {BIO 19522835 <GO>}

(Multiple Speakers) question.

A - Natalie Kershaw {BIO 21394441 <GO>}

On the next question, I think is -- Paul I think, said last quarter, we would expect our net premiums written to increase more than our growth premiums written this year, although the dollar amount that we spend may still be higher than last year.

Q - Iain Pearce {BIO 19522835 <GO>}

Did that happen in Q1?

A - Natalie Kershaw {BIO 21394441 <GO>}

Yes. We --

Q - Iain Pearce {BIO 19522835 <GO>}

(Multiple Speakers) gross written premium growth that you saw. Should we expect that being higher amount on net written basis at this stage point?

Q - Jelena Bjelanovic {BIO 16398596 <GO>}

Faizan, hi it's Jelena. Faizan, So just to reiterate what Paul and Natalie have already said, we look at our business on a full-year basis. Just looking at the quarter in isolation doesn't really help anyone. So if you look at it through the full year, as both Paul and Natalie have said, our reinsurance spend level might go up a little bit, but the percentage of net versus gross should go up.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. All right, thank you very much.

Operator

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

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. Thank you. Most of my questions have been asked. So I just wanted to ask in terms of how Lancashire Capital Management had started the year and whether you would expect the Uri losses to have any implications in terms of the sort of returns that it would generate. And secondly, just a boring numbers question, what is the cost of retiring the non-qualifying debt going to be? Thank you.

A - Darren Redhead {BIO 17995744 <GO>}

Hi, Ben, it's Darren. I'll take the question on LCM. How the year started? Very pleased, we would say. Our portfolio is the best we've had since inception in a potential year to investors, which was also about the rating environment. Regarding Uri, little to no impact on the LCM portfolio due to the levels that we attach with our client customers.

Q - Ben Cohen {BIO 1541726 <GO>}

Thank you.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Ben, on your third question, we're going to retire all our historical debt this quarter. So it should be gone by the Q2 releases. None of the subordinated debt that we've got has got any penalties associated with it. However, there is a penalty on our senior debt, which is basically the current value of the interest payment on that up until October 2022. So, that will come in, in the region of around $10 million, which will be included in next quarter's results.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thanks very much.

Operator

(Operator Instructions) Our next question comes from the line of Emanuele Musio from Morgan Stanley. Please go ahead, your line is open.

Q - Emanuele Musio {BIO 19781440 <GO>}

Hello, hi, thanks for the kind of question. I have three questions, two are on capital one on prior year development. So the first one, looking at Slide 11, it looks like you plan to deploy alpha what you deployed in January throughout the rest of the year. How should we think about growth? I know that it depends on rates and business up for renewal as well. So perhaps, if you could give us an idea about what proportion of your business renewals in June, July, April and so on, if you can give us a breakdown, that maybe would help.

And the second question, still on the same slide, what ECR ratio would you expect rating agencies -- the rating converting agencies to fall below your decent level?

And then lastly, on prior year developments. You released nearly $5 million in the first quarter. Would you reiterate the guidance that was given for the full year? And if you can give us also an idea about the impact of new lines on PYD/

A - Alex Maloney {BIO 16314494 <GO>}

Okay, hi Emanuele, on your first point, I think first point to make is, we certainly have -- we're in a very strong capital position. So, we're definitely in a good position to grow for the rest of the year. Worth remembering, and I mentioned this earlier in answer to some of the other questions, that Q2 is more specialty insurance dominated. There are obviously still cat renewal seasons in Q2, but we kind of moved back more towards specialty and then later in the year, things like aviation, for example.

And they're a lot less capital-intensive. As I mentioned earlier, we're still seeing really good rate momentum in a lot of our lines of business. So, I would fully anticipate to grow ahead of the rating environment, which is what you would expect us to do at this stage of the cycle. In terms of absolute numbers, we will underwrite the opportunity in front of us.

As I said before, we won't go into any renewal season with preconceived ideas in the market better than we think, and we'll grow more aggressively. It's in line with we grow in line with plan. And to be honest, if it's not as good as we think, then we prepared to not grow as much.

So sorry, it doesn't give you an exact answer to the level of growth, but where we see the market now, where we see the rate adequacy for a number of our lines of business, I would be expecting us to grow ahead the rating environment for the remainder of the year.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Emanuele, it's Natalie. I referred an answer to the first question, we don't disclose our rating agency capital requirements. Further, if you look at the Slide 9 with the chart on that slide, which gives an indication of the relative capital requirement of AM Best and S&P compared to the PFCR, so that may be able to give you a little bit of color on that.

On prior year development, there's no change to our guidance of $40 million to $60 million of reserve releases for this year. As we've said previously especially, believe reserve releases as an annual number as quarterly movements can be quite volatile. We do often have low releases or even what appears as best development in Q1, as we can (inaudible) coming through from the prior year. And then this comes to even out throughout the year.

And just to note that we've never had a year of overall adverse development since our inception. I think you had a further question on the new lines of business. Obviously, they are new lines of business, so they're not going to impact any reserve releases this year.

Operator

Our next question comes from the line of Nick Johnson from Numis. Please go ahead, your line is open.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi, good afternoon everybody. Just a question on the comments around strategy to improve cross cycle returns. With new lines of business diversification, which is accretive to returns, which makes sense, just wondered if you could say what your aspiration is in terms of how many points that might add to cross cycle returns versus the old book of business sort of prior to when you started to move into new lines, a few years ago. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So I think if you think about our strategy, it's very simple. And at this stage of the cycle, you should expect us to grow materially as we have done in Q1. I think the new lines of business are a function of two things. One, if you look at the new lines of business we've entered since 2018, pretty much tracks when rates across most class of business improved. And as you know, during the soft market years, we contemplated the opportunities, but we just couldn't get the numbers to work.

So I don't think anyone should really be confused with a material change in strategy. I think we're just finding more classes of business that make sense. And obviously, as you know, we're not really fussed on the makeup of the book, but we are fussed on improving our returns and growing. And the benefit of some of the front lines we've added is that you will give diversification, but that's, as I said, a by-product of -- a handy by-product of the class of business. And we're just not obsessed with the makeup of that portfolio, but every single thing we do is to look to improve our long-term returns.

So I think it's quite hard to compare it to our old book of business because the Company has changed a lot. And obviously, we're moving Lancashire forward, but the DNA of the business and why we're doing this hasn't changed at all. And everything we're doing, we believe will improve our ROE over the long term.

So for me, this is all perfectly logical in the market we're in. And over time, the market gets better and improves, we will grow with the opportunity, and then at some point, when the other part of the cycle obviously starts, we'll probably go back to being a bit more normal.

Q - Nick Johnson {BIO 1774629 <GO>}

That's great, thanks very much, Alex, thank you.

Operator

Thank you. Our next question comes from the line of Will Hardcastle from UBS. Please go ahead, your line is open.

Q - Will Hardcastle {BIO 16346311 <GO>}

Good afternoon, everyone. High level given so many granular questions that presumably, we're looking at higher return on capital year-on-year. How should I think about the volatility shift year-on-year because we retaining more business, small cap perhaps as volatility then there is a mix shift within the portfolio. I guess we've got high returns -- expected returns. Sorry, but is volatility higher, similar or lower year-on-year?

A - Alex Maloney {BIO 16314494 <GO>}

So obviously, everything that we're doing are always subject to large losses. Everything we're doing improves our expected returns. A lot of the conversation we had about ratios, if you look at our ratios, they're improving, our expected combined ratio is improving. I think on the volatility front as well, the benefit of the non -- the less volatile business we're writing will -- should bring volatility down over time and, therefore, improve results. Obviously, as you've seen in Q1, we are still subject to large weather events like everyone else. But over time, that should improve our returns in (inaudible).

Q - Will Hardcastle {BIO 16346311 <GO>}

Is that -- sorry, just follow-up, I guess if a lot of the other lines of business are growing through Q2, Q4, is there perhaps a view that volatility, when we come to look at it across the whole year, may be lower, but because a lot of the growth in Q1 has come in some of the more cat lines, it might short-term increase volatility? But net-net, we're looking at higher returns, lower volatility. Is that how we should look at this?

A - Alex Maloney {BIO 16314494 <GO>}

I think that obviously depends on Q2. Obviously, we tend to do some of the -- sort of higher capital products in Q1, but obviously, things like Florida depends what the opportunity is. And as we always say, we'll underwrite the market in front of us. And none of us should be afraid of volatility, you just got to be getting paid to take the volatility and I think that's the key point.

Q - Will Hardcastle {BIO 16346311 <GO>}

Brilliant, thanks.

Operator

Thank you. We have a follow-up question Iain Pearce from Credit Suisse. Please go ahead, your line is open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for allowing me a follow-up. More of a sort of philosophical, high level question. You've always sort of prided yourself on the underwriting core management being able to have a very good view of what's going on and sort of seeing the businesses coming into the Company. I'm just wondering if the expansion that you've had and the new lines of business that you've been entering, is that becoming a challenge now? Is sort of your capacity to look at all the business coming through the door, getting quite challenged? Or is that something where you still see you've got headroom to manage that?

A - Paul Gregory {BIO 16314515 <GO>}

Hi Iain yeah, I think that's a very good question. I think one point to note is the conference call that we -- the daily conference call we have is still there, but that has only ever been to the Company platform, Lancashire UK, and Lancashire Bermuda. And within the Lloyd's platforms, where we write kind of the smaller tickets, if you like, there is -- and that kind of oversight, but on a more traditional peer review basis a lot of the new lines we've gone into fit within that Lloyd's structure.

We have actually evolved the conference call over time, and we'll continue to do that. The kind of -- what we will always remain is that daily call to look at the big-ticket items that can, say, even move our capital, where we run bigger retention, more difficult renewals but as we have grown, that is something we've evolved, but with the DNA of looking at the big deals that move the dial being on that call every day, and that will remain as we go into more lines of business, then it will be more of the focus on the big-ticket items. But that -- it will definitely remain part of our DNA. It will definitely remain part of our process.

A - Alex Maloney {BIO 16314494 <GO>}

I think as well, remember that we -- we've added a lot of really good people, we promoted some really good people, and the business has moved on. So, we've got lots of eyes looking at the appropriate risks and, as Paul said, where we're writing the larger line sizes or the things that move the dial, there's much risk management on those products as there's always been and as should be for a business such as ours.

Q - Iain Pearce {BIO 19522835 <GO>}

That's great, thanks.

Operator

Thank you. We have no questions on the line. I will hand it back to our speakers.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you very much for your questions.