Q3 2018 Earnings Call

Company Participants

- Alexander Terence Maloney, Group CEO & Director
- Elaine Whelan, Group CFO & Director
- Paul Gregory, Group Chief Underwriting Officer

Other Participants

- Benjamin Cohen, Analyst
- Darius Satkauskas, Associate
- James Pearse, Assistant VP
- Jamie Inglis, Analyst
- Jonathan Denham, Research Associate
- Kevin Ryan, Analyst
- Luke Stratford-Higton, Associate Analyst
- Nicholas Harcourt Johnson, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good day. Welcome to the Lancashire Holdings Limited Third Quarter 2018 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Alex Maloney, Group CEO. Please go ahead, sir.

Alexander Terence Maloney {BIO 16314494 <GO>}

Okay. Thank you. Good morning, everyone. The Lancashire Group has witnessed an active last quarter, with several cat losses coupled with 2 Marine events. We always say that due to the nature of our underwriting portfolio, we had bumpy quarters and this is one. We also do not judge our overall operating performance over such a short period of time. And therefore, I'm happy with our 9-month performance. Our year-to-date combined ratio of 86.9% demonstrates the quality of our underwriting portfolio and our year-to-date investment performance of 0.9% confirms our strategy of being short duration, which has helped to protect us from the rising rate environment.

We will also be able to benefit from higher yields going forward as the portfolio turns over fairly quickly. When adjusting our gross written premium for multiyear impacts, reinstatement premiums and other adjustments, our core underwriting portfolio has grown 10% year-to-date, with a year-on-year rate change of 5%. None of the losses we have witnessed this quarter are outside of management's expectations for such events. And although infrequent, our large marine loss is the exactly the type of coverage we provide. This is a client we've insured for over a decade with a long-term history of profitability. This unfortunate event will, therefore, enable us to demonstrate the value of our product and claim service. The cat events that we have witnessed this quarter are small by industry standards so they do come at the time when the industry earnings are low, therefore, these losses will always have more and more meaningful effect on industry returns than at other times in the cycle.

After another attritional year, we believe that rates and levels will only stabilize or improve for 2019. Cat rates will be driven mainly by whether the current levels of third-party capital are seen in '19 as were seen at the start of '18. We believe this to be unlikely.

Speciality insurance rates have been better than we planned for in 2018. And we expect this to continue into 2019. We expect capacity to reduce in most of the specialty lines in which we operate as the market struggles to improve profitability. Hence we are quietly confident about the opportunities that are presenting themselves for our book in 2019.

We are well positioned with profitable underwriting portfolios, which are the results of sustained disciplined underwriting as we had never sacrificed profit in the pursuit of growth. But clearly as we have demonstrated this year, we will grow when we deem the underwriting opportunity sufficient to deploy our capital.

So we feel particularly well positioned for the next stage of the cycle. We have a larger underwriting footprint going into 2019, which makes perfect sense to us as the underwriting environment improves. The investments we made this year in new teams will start to bear more fruit as those underwriters see a full renewal cycle and we hope to be able to add more underwriting teams as the return profile improves.

Our core strategy remains unchanged and we continue to demonstrate the underwriting and capital discipline we have had since the inception of our company. Finally, I would like to thank our shareholders for their support with our company and our people for all those -- for all their continued hard work.

I will now pass over to Paul Gregory.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. From an underwriting perspective, it's been a difficult quarter, albeit for nine months, we've produced a combined ratio of 86.9%, which remains a good result in the context of the year so far.

The quarter has been dominated by a number of small to midsized natural catastrophe losses, plus a significant marine loss, which has dented our underwriting profitability for the quarter. All of these losses individually are within our expectations and risk tolerances given the relative sizes of each loss. We are a significant and relevant participant in the London marine market. So it's not surprising to have a reasonable share of what could be the largest marine hull builders risk loss in history. Our underwriting portfolio produces market-leading combined ratios. But it does contain risk and, therefore, we can have quarters such as this. But through nine months, the combined ratio of 86.9% remains more than acceptable. In terms of business development, we've made significant strides in adding new underwriting talent to the group this year. We started underwriting downstream energy at 1/1 and a power portfolio in May. Combined, these 2 product lines have currently underwritten just over $15 million of premium so far this year. We've also entered the niche aviation deductible subclass and we'll see a small amount of income attributable to this in Fourth Quarter of this year. And in 2019, we'll see the full benefit of all these new product lines.

All these new products have been focused on specialty insurance lines, which are relatively capital light. These additional classes are all complementary to our existing product lines, allowing us to sell more niche products to existing clients and brokers as well as developing new ones. As importantly, it's the specialty insurance lines where we've seen the market slowly improve throughout the year and the current hardline starts from Lloyd's, which we fully endorse, has added further pressure to these product lines. So we are quietly confident that we will continue to see modest price improvement as we move into 2019.

In specialty insurance, we have a proven track record of outperforming the market, which is why we are confident that we can add underwriting profitability over time to these new investments.

M&A and market disruption has allowed us to be opportunistic in our hiring and our disciplined underwriting approach has given us a platform from which we can grow carefully into an improving market whilst others may be forced to retract. This new business has been an addition to other new business and increased rates across our existing portfolio, delivering underlying premium growth year-on-year once you strip out all the noise of both '17 reinstatement premiums and multiyear impacts, which Elaine will provide more color on.

Our expectation for catastrophe reinsurance pricing is currently more measured. The market rhetoric at the moment is for flattish renewals with the negative pricing pressure in some territories and marginally positive in others who have experienced losses this year or '17 loss creep. As a result, we expect to broadly maintain our current risk profile of catastrophe business. But if market conditions are better than expected, the results of continued loss activity in '18, further '17 deterioration and retro market dislocation, then we have the capital, the platforms and the people to underwrite these opportunities. I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Hi, everyone. The Third Quarter was certainly an interesting one with a number of risks and catastrophe losses impacting our results. Across our marine and property portfolios, we have recorded a net loss after recoveries in reinstatement premiums of $66.9 million from those events. Our RoE for the quarter was negative 1.9%, bringing us to positive 3.9% for year-to-date. Our combined ratio was 135.2% for the quarter and 86.9% for the year-to-date. Without the impact of these events, our RoE for the quarter would have been 3.5% and our combined ratio would've been 68.6%.

Our gross premiums written have reduced this quarter due in part to the ongoing impact of multiyear and non-annual deal renewal timing. However, we've also got a $20 million impact this quarter of the relative impact of reinstatement premiums quarter-on-quarter, with a considerable amount of in-between reinstatement premiums built in Q3 2017 following the HIM losses. Q3 2017 also had some adjustments on prior underwriting year risk catastrophe contracts across a few lines of business that had basic premiums.

With the reinstatement premiums and the prior underwriting year adjustment, flows straight through into our net premiums earned, hence the quarter-on-quarter reduction. Our premium CD were also impacted a little bit by relative reinstatement premiums with a slightly higher amount exceeded in Q3 2017 than Q3 2018. We also bought some reinsurance earlier this year, which also explains the drop in the quarter.

Year-on-year spend is actually up slightly on last year, given the additional reinsurance we purchased this year.

Our acquisition cost ratio is elevated in the quarter primarily due to the impact of reinstatement premiums. Our anticipated ratio trending back down to around 27percentage next year. While we don't give top line guidance, as Paul has said, we expect to see flattish pricing at 1/1 on the cat book. But improved pricing across the specialty insurance lines of business. That combined with the addition of some new teams in the specialty lines means despite the ongoing impact of multiyear deals, we expect our top line for the Fourth Quarter and for next year to be up a bit in the current year.

In the press release we issued on the 8th of October, we estimated net losses after recoveries and reinstatement premiums of $30 million in the Marine book and a range of $25 million to $45 million in our property cat book. As mentioned, we've recorded a net loss of $66.9 million after recoveries and reinstatement premiums across the event of the quarter.

We've broken out the impact by respective books in our press release. We recorded a net loss reserve in the property book for hurricane Florence and typhoons Jebi, Mangkhut and Trami at $39.4 million with those events contributing 43.8% to our loss ratio for the quarter. We recorded net loss reserves in our Marine portfolio of $17.9 million with main events contributing 26.6% to our loss ratio. After these losses, our loss ratio would've been 11.5% and our accident year ratio would be 43%.

Our attrition as a gain, running a little higher than normal this quarter, reflecting a slight uptick in attritional loss ratio at Cathedral due to (inaudible) materialized in the quarter.

I would say that the losses we've discussed, which individually could be described as more attritional in nature, there is nothing in the quarter that's indicative of any change to how we think of our attrition. These are just timing impacts.

Lastly, on losses we had strong favorable prior year development of $35.2 million due to some releases of prior year cat event reserves and also general IBNR releases due to the lack of reported coming through.

Investments produced a return of 0.5% in the quarter. We're continuing to get some benefit from the rates hike in our fixed maturity coupon, which more than offset the loss from the increase in yields. We also had some spread -- some spread narrowing and good returns for most of our risk assets, continuing to position the portfolio for further rate increases and volatility.

Both G&A and stock comp expenses are higher than last year. Last year we wrote down our variable compensation accruals, investing expectations in the stock comp after the hurricanes. Otherwise costs are in line with the prior year and within expectations.

Lastly, on capital, while we've made a loss for the quarter, we remain profitable for the year. Depending on loss activity over the rest of the Fourth Quarter we expect to finish the year with profits. Our outlook is for some growth. But not for capital-intensive growth. So we don't need more capital than we began this year with.

While the events of the Third Quarter mean our profits have been impacted, we still intend to return some capital to shareholders. We are therefore declaring a special dividend of $0.20 per share, or approximately $40 million. With the other dividends that equates to dividends yield of just over 4%. As ever, we will continue to monitor underwriting opportunities and adjust our capital accordingly.

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

Questions And Answers

Operator

(Operator Instructions) Our first question today comes from James Pearse from RBC Capital Markets.

Q - James Pearse {BIO 21233776 <GO>}

Just one from me. So the first one is on dividends. You announced a special dividend this morning, as Elaine just mentioned. I was just wondering, dependent on renewals, do you see any additional capital this year being returned to shareholders?

A - Elaine Whelan {BIO 17002364 <GO>}

I think that we are fairly good outlook for the 1/1 renewals and we are expecting to underwrite into our capital at the moment. So I don't anticipate anything further.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Other than the ordinary.

A - Elaine Whelan {BIO 17002364 <GO>}

Other than the ordinary.

Operator

Our next question today comes from Ben Cohen from Investec.

Q - Benjamin Cohen {BIO 21227414 <GO>}

I had a couple of things. Just to clarify, on the attritional loss ratio, sort of, underlying, do you still see that in the mid-30s, given the higher -- excuse me, the higher instance you've had? And secondly, on the multiyear, the impact of multiyear, when are those contracts up for renewal? Is there going to be -- is some of the growth that you're talking about for next year or indeed into 2020 if you can give us that clarity, is it going to come from these multi deals renewing? Maybe the third, sorry. Can you just clarify a bit more, I think you said that you expect a bit of growth next year, do you want to be any more specific on that?

A - Elaine Whelan {BIO 17002364 <GO>}

All right, I'll have a crack at those. In terms of the attritional loss ratio, I think we'll have a little bit of an uptick. But it's early days yet and there's IBNR in those numbers. We still have to see that run through it, I think in terms of the underlying book that hasn't really been a change there. And pricing is there or thereabout. So still pretty comfortable with that. We do have some new lines of business coming in that might carry a little bit more attrition. But nothing too significant. And the multiyear, you might want to help me a little bit here, make sure I'm answering the question that you asked. The impact is variable and this year's multiyear impact is fairly consistent with last year's multiyear impact as about $65 million reduction on the top line over the course of the year. It does vary quarter-on-quarter. Next year we are expecting that impact to be less and that's just the timing, some of the multiyear deals are two years; some of them are 3. It's pretty variable that we'd expect probably something in the range of $45 million to $50 million impact on the next year's top line to the negative in the multiyear impact and despite that, we're expecting premium to be higher year-on-year. So I hope that deals with your growth question as well.

Operator

Our next question today comes from Kevin Ryan from Bloomberg Intelligence.

Q - Kevin Ryan {BIO 1814771 <GO>}

I just would like a little more clarity if you're able to offer it, around what triggered the special dividend, which I think shareholders will be very pleased about. But how should we see this in line with what you're thinking about for writing new premium in 2019? Because I think that premiums are well down this year, you just haven't seen the opportunities. So is this special dividend indicating that you're still not seeing opportunities or how should we look at all this?

A - Elaine Whelan {BIO 17002364 <GO>}

In terms of the way that we look at capital, we normally look at what we think that we want to underwrite and then we match our capital to that. We then stress that and then on top of that we add a buffer. And so we have that and then we have a little bit of a buffer on top of that as well. So we have plenty of capital to do what we think that we want to do. I would see a special dividend here as a fairly minor adjustment to that. We do monitor capital actively and adjust as we see necessary. I think the business that we want to -- the new business we want to write going into next year is more on the specialty lines of business, which are less capital-intensive than the cat lines of business. So there's less of a requirement for capital on those lines of business. It's a bit more diversifying.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Yes, exactly, as Elaine said -- exactly as Elaine said there are -- and as we mentioned in our scripts, our outlook for the cat market at the moment and things can change -- is that we expect it to be broadly flat and, therefore, we'd expect to have a risk profile that is broadly the same. And it's those cat lines that drive our capital, the opportunities we are seeing and the new teams we've added during this year are in non-cat heavy lines, such as aviation, power, downstream energy. So they can be at -- that's growth, that's new teams. But it's not very capital intensive. So we don't need any more capital to underwrite those opportunities and the rate increases we're expecting to see in '19 are in those specialty insurance lines. So we're able to underwrite those new opportunities without the need for more capital.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. And rate increases on their own don't drive an increased capital need.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Exactly.

A - Elaine Whelan {BIO 17002364 <GO>}

It doesn't change underlying exposures.

Operator

(Operator Instructions) And our next question today comes from Jonathan Denham from Morgan Stanley.

Q - Jonathan Denham {BIO 19972914 <GO>}

I'm just wondering if we should expect to see a material increase in specialty business as a proportion of your business mix over the more medium to long-term? Or is it just simply a short-term move based on relative pricing? Then if the former, as it's less capital intensive, do you expect any shift towards impact future capital return?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

In terms of -- I wouldn't necessarily expect to see a material increase based upon how we're seeing the market at the moment. We will, obviously, be looking to write more. So there will be an increase. Obviously, we always underwrite based upon the opportunity and if specialty insurance got really exciting, that's when you'd see a material increase. We've still got a stable cat book that we're happy with our cat book. We're happy to continue underwriting with the footprint that we've got. So yes, there will be a slight move towards specialty business. But I wouldn't necessarily deem it material as we see the market today.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. And again, that doesn't have a heavy capital requirement on it and it does diversify. So I think if we assume a kind of fairly steady state, then we've got a situation that you're subject to loss events. We'll be looking to return an element of our earnings and so no real change in the way that we look at capital or how we think about special dividends there.

Q - Jonathan Denham {BIO 19972914 <GO>}

Sure. Then just to clarify that, that's just a 2019 story as in the case of, you expect to grow your specialty -- looking 2, three years ahead?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

No. We are growing our specially footprint which we're doing at the moment with new teams we've added, then naturally our footprint in specialty will grow beyond '19. To grow it materially, it's going to be driven by the opportunity in the market, yes.

Operator

Our next question today comes from Luke Stratford-Higton from UBS.

Q - Luke Stratford-Higton {BIO 21041344 <GO>}

So my first question is regarding hurricane Michael. So I just wondered if you could provide an update on where your loss expectations are at this stage? And also how much offshore energy has been impacted? Then my second question is coming back to the dividend and I'm just wondering if there was any reason you couldn't return 100% of 4Q earnings?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Luke, like I said. So on hurricane Michael, we have a range so -- we have a range that we haven't publicized and that's because our Michael loss for us is -- we don't believe it's material. It's quite a good loss for us. So we won't publish it at the moment and, clearly, like everyone else, we don't have a huge amount of data. But we probably think that the industry loss is $10 billion. But for us the loss is not really material. So we haven't published it as yet and we'll deal with that when we issue our Q4. And on the energy side, Michael shouldn't be an energy loss for anyone on the offshore energy side. There is a marine building risk, which is a total loss from Michael, which we are not on. But as far as we know. And I think we would have a pretty good handle on the offshore energy sector, we don't think there's really any energy assets that far east in the Gulf. So that shouldn't be a problem for anyone, I'd be surprised if it was.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. And in terms of thinking about the returns we do also have an interim and a final ordinary dividend that we're maintaining so you can wrap them into your view of how much we are returning.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Yes. The final view on dividends as well. I think there is a lot of uncertainty about 1/1 and there is lot of question marks. So I think we believe that the 1/1 renewal is going to be really late this year. We believe that the Lloyd's business plan in process won't be finalized till the end of November. We believe that there's going be more question marks about some reloading of ILS funds after another year of locking up. So we think it's going to be a really late renewal and there's quite a lot of uncertainty and there's quite a lot of big buyers that have, sort of, been in the press saying that they want to buy more coverage. So I think it's really -- it's quite hard one to call it 1/1. So we want to have as much available capital as we need for the opportunity.

Operator

Our next question today comes from Nick Johnson from Numis Securities.

Q - Nicholas Harcourt Johnson {BIO 1774629 <GO>}

Question on the energy market. So obviously the oil price recently has been a bit volatile but it's up nicely compared to last year. Do your conversations with clients and brokers indicate increased demand for next year as projects come back onstream? Are you getting clarity on that yet or is it still too early to know?

A - Paul Gregory {BIO 16314515 <GO>}

Nick, an increase in oil price, we've always said, is good for demand. A stable oil price is also good for demand. I think if you look at a lot of the earnings coming out from the larger oil companies, you're seeing them backing profits and making good profits, which is good. Our conversations with both the clients and brokers are that the things are coming back to work. We've seen some new construction projects sanctioned. I don't think it's going to be a massive flow straight back in, energy companies are still nervous, given what's gone on over the few last years. But the signs are that it's positive momentum, which is good. So yes, we do expect to see some demand come back in '19. We're just not getting overly excited that it's going to be a sudden flow of lots of new business. But we like positivity. We like demand coming back in. And we are well placed to take advantage of that when it does.

Q - Nicholas Harcourt Johnson {BIO 1774629 <GO>}

Okay. Great. I'll just ask one other question actually just on Marine. Obviously, the very big loss we've been talking about 6 weeks ago now. Are you starting to see the market react to that in terms of pricing? Or will that play out over longer period of time, if at all?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So at the moment, there's not a lot of renewals in the market at the moment. So it's kind of strange. But so that's probably more of a 1/1 question. But look, clearly, there is a -- we -- our Marine portfolio has been profitable. And marine portfolio has been sort of very, very specialized for probably 10 years now and that's why we've made money out of Marine. But if you look at the general Marine class, the numbers are just awful. So I think there will be a lot of underwriting that -- re-underwriting the business that needs to be done and there's a huge amount of syndicates in particular that fold out in Marine business. So I think that's just a timing issue. If you looked at our cargo book, our cargo underwriters are happiest I've seen them in about five years because the cargo market is actually quite interesting. But if you look at when people start to pulling out of cargo, there is always a time lag in this business and at the moment Marine is not really going anywhere but there's not a lot of renewals. But once I think the time lag sort of catches up, I think the Marine market next year could get pretty interesting. But we're not seeing it yet. But as I said, if you look at cargo, the cargo market probably started to experience the same things that happened in Marine, probably 6 to nine months before. So I think you could be in a different Marine world within six months' time and clearly, again, we are incredibly well positioned for the opportunity if it arises.

Operator

(Operator Instructions) And our next question today comes from Jamie Inglis from Philo Smith.

Q - Jamie Inglis

I've got a question about the multiyear contracts and the renewals of the same. The question is, is -- how do you balance the renewal of those contracts versus where rates and terms and conditions might be today? Meaning next year or the maybe the year after, more likely than not, rates will be higher than they are now? So how do you factor that into the renewal process?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So effectively Jamie, it's a hedge. So we've got some clients -- some clients buy a large program and some clients buy an element of that on a multiyear basis. And as underwriters that's a hedge, yes? So if you're in a market that's declining and you lock the client in for three years, the client knows what they're paying and we know what we are on the hook for. But clearly, if there was a market opportunity within that three years, we would honor our contract and we're locked in. So I think as a business you always -- I think multiyear's fine for an element of your book and if you look historically -- what we've done in the Gulf of Mexico, energy market, we locked -- we offered clients capacity on a multiyear basis when there was a shortage of capacity. So we kind of locked in at the top of the cycle. So I think as I said, multiyear's fine. You don't want your whole book locked up for obvious reasons because that can go on over and over. It's a hedge for both sides. But some clients do buy an element of multiyear and that's fine with us. So it's just part of our business. I think if the market gets much harder, for whatever reason you would expect to have, we would have less business on the multiyear basis for obvious reasons. But look, our multiyear clients are clients that we're going to underwrite pretty much forever. So up to a point they're long-term relationships and with those clients you trade over long time and sometimes we give a bit and sometimes they give it bit and just -- that's just the way it is.

Q - Jamie Inglis

All right. Okay. Great. And separately, how should we think about the relationship between loss ratios and the variable compensation, meaning obviously they are inversely related, is there a way for us to think about it, meaning if loss ratios are up by 1percentage point, what happens to that -- the variable compensation charge?

A - Elaine Whelan {BIO 17002364 <GO>}

You're very often thinking of in terms of RoE. If you go into our annual report, it sets out the criteria. There's clearly variable compensation in there. So it's RoE targets. So if there are loss events that drive the RoE down, then the variable conversation will be less.

Operator

Our next question comes from Darius Satkauskas from KBW.

Q - Darius Satkauskas {BIO 19724328 <GO>}

What portion of HIM claims have now been paid? And how should we think about your current estimates? And is there further development that you expect? And secondly, can you give an indication of how much HIM estimate reduction contributed to your per year favorable development this quarter?

A - Elaine Whelan {BIO 17002364 <GO>}

I guess in terms of payments, we're probably about 1/3 or so through, that half being quite slow compared for -- than the normal. I think that's what other people are seeing in the market as well. And in terms of the reduction in reserves this quarter, of the 35 that we reported, about 15 of that is related to specific claims and reserves. And most of that is from the property book with about half of that portion from the property book due to reductions in HIM reserves from last year.

Operator

(Operator Instructions) Our next question comes from (Dale Tadd) from Bernstein.

Q - Unidentified Participant

I just wanted to ask -- just quickly get a flavor of what business lines you think you'd be most optimistic for in 2019? And why renewal pricing has bounced back from hedge fund?

A - Paul Gregory {BIO 16314515 <GO>}

I think, as we said in our commentary, the lines that we expect to see pricing improvements in '19 are those specialty insurance lines, specifically, marine, cargo, aviation. We've seen positivity this year in energy and we'd expect to see some continued positivity next year. So it's really those specialty insurance lines.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Then on the second question, if you're talking about why the rate levels come off on some of our lines, we think that's many of the cat lines. So if you check back to the 1st of January, the cat market was achieving rate increases, which were reasonable and as you got closer to the 1st of July, the rates and levels came down and the reason for that is that post '17, people had business plans that were aggressive, I suppose. And the cat market rate increases didn't materialize as people expected and the closer they got to July 1 and the -- particularly the flow to renewals, people were looking to fill business plans. So the more aggressive they got, that drove the pricing level down. But as Paul said, I think sitting here today, we think cat rates are flat. And we are planning for flat cat rates. And hopefully that is the minimum we see. But I think what you're seeing on the specialty insurance side, as we commented earlier, our specialty insurance RPIs are probably better than what we thought. I thought we were going to be at plus 3, when blended over the year we're at plus 5. And I think it's just a realization that lots of people, not us, just didn't take any real notice of their specialty books, whilst they were making money out of cat business and post '17 and the lack of real change in the cat world has forced people to actually re-underwrite their specialty portfolios. And we see that continuing, particularly in the product lines we're in and particularly in the sort of London market books that we have and everything that's gone in Lloyd's and the only thing that drives our world is capacity and we sit here every day and see our peers or our competitors pulling out of product lines pretty much every day. So we think capacity comes down for the majority of product lines that we have and that will hopefully enable us to reprice business and grow our book. So that's why we're much more positive on -- we're not down on cat but we see more opportunity in specialty and again, that's driving the dividend opportunity that we just announced as well.

Q - Unidentified Participant

If I could just ask one last follow-up question. Going forward, what would you say would be the key drivers for continued high reserve releases?

A - Elaine Whelan {BIO 17002364 <GO>}

No losses. And if you think about the way that we look our reserves, we reserve for attrition. So if nothing comes through on the attritional side, then we are going to release it. And that's driven by pattern. So it's fairly mathematical. And when you have large losses and events, we will reserve them to best estimate. We'll go through on an account-by-account basis for the very event. And if they develop favorably. And then you get to see the ranges of them, a little bit like we've had in this quarter. So we did -- as I said earlier, we had some releases from the HIM reserves from last year but we also had some releases on the 2012 events as well this time. So I mean, sometimes it can take a little bit of time to come through and then on the large loss side, we can have energy claims that can step out and it can take a few years for them to come back in as we're going through the repo system. So it's a bit of a time adjustment and patience in some of those.

Operator

(Operator Instructions) We have no further questions. I'd like to hand back over to you, Mr. Maloney, for any closing remarks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Okay. Thank you for your questions and time. And we'll talk to you at Q4.

Operator

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