FINAL

Bloomberg Transcript

Q4 2016 Earnings Call

Company Participants

- Alexander Maloney, Group Chief Executive Officer & Executive Director
- Denise O'Donoghue, Group Head-Investments & Treasury
- Paul Gregory, Group Chief Underwriting Officer & Chief Executive Officer-Lancashire Insurance Company (UK) Limted

Other Participants

- Andreas Evert Cornelis van Embden, Analyst
- Ben Cohen, Analyst
- Joanna T. Parsons, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Olivia Brindle, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to Lancashire Holdings Ltd. Fourth Quarter 2016 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 Maloney {BIO 16314494 <GO>}

Okay. Thank you, everyone. Thanks for dialing in. Today, we have some different people on the call. We have Paul Gregory, Group CUO. We have Denise O'Donoghue who is Group Head of Investments. We have Natalie Kershaw who is our Chief Accounting Officer. And, unfortunately, Elaine Whelan can't join us today as she's (01:44) for a personal matter.

I'm pleased to report a strong set of results for our fourth quarter. Our underwriting investment strategies have continued to add value for our shareholders. Our full-year return is an excellent achievement in challenging markets. With return on equity of 2.8% and a combined ratio of 79% in the (02:07) fourth quarter, our underwriting result remains healthy against a backdrop of continuing weakening of risk pricing and overcapacity in all classes of business.

Our investment strategy was put to the test this quarter with the expected increase in U.S. treasury yields. So again, we have come through that test, and we're happy that we can demonstrate we have the right investment strategy for our business.

Our 2016 return on equity of 13.5% is an excellent achievement and remarkably constant with the return we generated in 2015. I said at the start of 2016, I felt we had the right to underwrite an investment strategy to navigate our way to a sensible risk-adjusted return for our shareholders which we have delivered.

We have maintained our relationships with our core clients, reduced our risk levels and proved we can recruit excellent people. So as an executive team, we are happy with the progress we have made in 2016.

Our January 1 renewal was in line with our expectations. We renewed our core portfolio of clients as we expect we would do. And we have seen new opportunities for the new underwriters we have hired, as well as our existing underwriting teams.

The quantum of rate reductions for reinsurance business has definitely slowed, but specialty lines can be patchy, which is disappointing. It just means we need to listen to our underwriters and continue to navigate our way through this difficult path of the cycle. We have renewed most of our larger reinsurance placements at the January 1. We have continued revised strategy of reducing risk through purchasing of well priced reinsurance across all lines of business.

We have, in some cases, broadened coverage of reduced premiums, but we have, if anything, chosen to spend a similar amount from reinsurance in 2017 as we did in 2016. We think the strategy makes sense for the current conditions we find ourselves striding through. 2016 was a year of operational change for us, particularly at our Lloyd's business, Cathedral. I'm delighted we've been able to attract so much new talent to the group. I very much look forward to working on new opportunities with our senior leadership team. We still have lots of work to do, but we fundamentally won't change our DNA. We continue to focus on generating the best risk adjusted returns that we can for our shareholders. We see little change to the overall outlook for 2017, so our strategy remains constant. We continue to see decline in pricing with underwriting margins seen in most, if not all classes of business.

Our view hasn't changed in that we do not believe the pricing environment will improve until capital is impaired and capacity decreases. So our story is consistent as we see no immediate change in the underwriting environment, but we have demonstrated that Lancashire Cathedral and Kinesis business models continue to produce excellent results for our shareholders in challenging times. Finally, I would like to thank everyone who works for our company for their huge effort in producing these results.

I'll now pass it over to Paul Gregory.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. At the start of 2016, we saw our underwriting results continue with our core portfolio of business, maintain underwriting discipline, and purchase adequate reinsurance protections. The aim of this strategy was to ensure the best we could that our underwriting profitability was maintained throughout the challenging market conditions that we face. Throughout the quarter 2016, I'm pleased to say that we were successful in achieving all our aims, and as a result, we've been able to produce combined ratio of 76.5%, which, in any environment, is more than respectable.

We do appreciate that the loss environment was not overly testing, albeit natural catastrophe losses were up compared to 2015, and there continued to be significant losses in prior-year developments in the upstream energy market. Given these are two of our most prominent business lines, it's pleasing that we've still been able to generate a combined ratio in the 70%-s. This certainly gives us a degree of comfort in a continued soft market. We have gas in the tank to help us navigate through the cycle.

Unsurprisingly, given the changes at the Cathedral underwriting teams during the year, there's been a focus on how we will perform and retain business. I think the best demonstration of this is within property reinsurance. The entire team has been replaced during the past 12 months, and the premium for this portfolio in 2016 is reduced by less than 5% against the portfolio RPI of 94%, demonstrating that the book has simply been renewed.

More pleasing, at 01/01 this exact same trend has continued, simply put, it was just a normal renewal season. Premium and other areas of the Cathedral book such as Energy, Marine, and Aviation did experience larger year-on-year reductions, but these are teams who are unaffected by personnel changes. So, the changes are purely as a result of market conditions and disciplined underwriting.

Premiums across the rest of the Lancashire platform were also in line with expectations as we maintained our core portfolio across all lines of business. Premiums were marginally up year-on-year, but this is primarily a function of renewal timings on non-annual and multi-year contracts.

At 01/01 there were no real surprises, the market behaved in line with expectations. Across most lines, the pace of change has slowed, and there seems to be a realization that there really isn't much margin left to cater for any significant level of claims activity. That said, as we've always stated, until capital retracts, there'll be no material improvement in market conditions.

We remain well-placed to weather further rate softening if we stick to our disciplined underwriting philosophy, given the underlying profitability of our portfolio. We've been really happy with how we performed at 01/01, both with our investable (08:16) portfolio across the group and also the reinsurance protection we've been able to secure with longstanding trading partners.

A broader and more comprehensive reinsurance programs means our risk levels are down again, allowing us to carry more of a capital buffer than we typically would at this point of the year. We continue to show our underwriting discipline and the client business that does not make sense. This is something we always will do in order to maintain our underwriting result, and we have also taken the decision to exit the contingency clause (08:46) of business that was underwritten within Syndicate 2010 which has now been placed into run-off.

Our underwriting teams across the group have once again proven their ability to underwrite profitability whatever the market conditions, which provide us with the confidence for 2017 and beyond that whatever challenges come our way, we continue to provide underwriting results that deliver strong and acceptable returns to our shareholders.

I'll now pass over to Denise.

Denise O'Donoghue {BIO 15315126 <GO>}

Thanks, Paul. Hi, everyone. We had a few losses in the quarter although nothing of any great significance. We also had some moving parts in our prior accident year reserves, but overall still some decent net favorable development for the quarter.

With the combined ratio for the quarter of 79% and 76.5% for the year, overall underwriting performance continued to be pretty good considering the market conditions. While we had the mark-to-market loss on our investment portfolio in the quarter with the increase in yields, our risk assets performed well and provided good diversification for the portfolio. Our net – a return of negative 0.1% for the quarter is a really good result in a volatile market.

Our ROE for the quarter was 2.8%, bringing us to a full-year ROE of 13.5% which is exactly the same return as we produced last year after adjusting for the impact of warrants. Cathedral contributed 1.3% to the ROE for the quarter and 3.6% for the year, and Kinesis contributed 0.3% and 0.8%, respectively. The contributions from our three platforms are consistent with their contributions last year, further demonstrating our ability to manage the current stage of the cycle.

Our top line and net premiums earned were both in line with Q4 last year. There were some minor reductions in gross premiums written in a few lines of business due mostly to market conditions and the timing of renewals, but these were offset by adjustments to prior-year contracts, primarily in the energy book due to changes in exposure.

As these are prior year, we see the benefit of those earnings coming through almost immediately, so our net earned premium got a little boost from that. While our 01/01 renewals went well as we've said previously and as Paul noted, we expect the current pricing pressure to continue in 2017. We therefore expect our top line to come off a bit in 2017, although there are always some opportunities around to rate new business. Multi-year and non-annual deals do always have a little bit of an impact, but we expect this to be much less than in some prior years, and we do still have the benefit of the contracts that have been written earning through.

Our acquisition costs for the quarter have popped up a bit. That's driven by the increased reinsurance spend year-on-year, reinstatement premiums, and general changes in business mix. But this quarter, energy book in particular saw some higher PCs coming through on offshore worldwide business. That's increased our acquisition costs ratio for the year.

Going forward with our current business mix and reinsurance spend, we would expect our acquisition cost ratio to be around 26%, 27%. On losses, as we said last quarter, we expect to have losses on Hurricane Matthew. While there hasn't been a great deal reported so far, we have booked some reserve at both Lancashire and Cathedral. We have had a few other small property losses in the quarter, although, as noted earlier, nothing individually significant. As for last quarter we had some deterioration on individual claims on prior accident years. So we saw some favorable development on other claims, and we again have general IBNR releases due to lack of any reported coming through, particularly on the closure of the 2014 year of account on Cathedral.

Overall there was net favorable development on prior accident years of $23.9 million for the quarter. As noted and in line with expectations given the Fed's decision to raise rates, we have a small loss on our investment portfolio this quarter. We have been positioned for interest rate rises for a while and benefited from that. We had positive returns on our all our risk assets plus our interest hedge, so we are very pleased with the way our portfolio has performed.

We are happy with our current investment strategy and don't envisage any significant changes to that in the near term. Although we will push duration (12:51) out a little bit, and we are in the process of repositioning our hedge fund portfolio.

We expect to maintain our hedge fund portfolio around similar levels to last year. In other income, as we noted last quarter, we expected the profit commissions from Kinesis to come through this quarter. There's therefore an increase compared to Q4 last year, but the full-year commissions are broadly in line, with a slight reduction this year due to a small amount of collateral still held on the January 2015 underwriting cycle.

The remaining commission on that underwriting cycle should hopefully come through in the first half of 2017. With the significant amount of the 01/01/2016 underwriting cycle already released, we expect to receive most of the profit commission on that cycle in the first quarter, and that should be just under $6 million.

Other income also got a nice boost from profit commission on the close out of the 2014 year of account at Cathedral. That was largely timing as the overall level of profit commission received was pretty consistent with the previous two years. We had a benefit from the decline in Sterling in our G&A in the second half of the year. While there has typically been an uptick in Q4 for bonus provision adjustments, our costs were lower than the fourth quarter in the prior year, primarily due to FX. With about 60% to 70% of our costs based in Sterling, we have a meaningful savings in expenses.

As we noted last quarter, our stock compensation expense is impacted by vesting (14:15) and performance assumptions, but the significant reduction in the quarter's expense compared to last year is largely due to the departure of certain Cathedral employees earlier in 2016 as awards granted on acquisition lapsed (14:27). We will see that trend continue for a few more quarters.

We had another gain this quarter on the mark-to-market of our interest rate swaps as yields rose. Ignoring the swap mark-to-market and any one-off costs, our financing costs still tend to be around $4 million a quarter.

Lastly, on capital, as stated in our press release, we're declaring a final ordinary dividend of $0.10 per share or about $20 million. With the 2016 interim and special dividend, total capital returns for the 2016 financial year is $178.9 million, which is 113.3% of comprehensive income and a dividend yield of 10.5%.

As we said last quarter, we're targeting around $1.3 billion to $1.35 billion of capital to support the book we expect to write in 2017. We're starting the year with slightly more than that, which is a bit of an insurance policy in the current uncertain political climate.

We want to make sure we have enough capital to take advantage of any opportunities that come our way. If we don't see those opportunities, we will trim that back, excess capital post-wind season.

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

Q&A

Operator

Thank you. We will now take the first question from Xin Mei Wang from Morgan Stanley. Please go ahead.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi. Good afternoon. It's Xin Mei Wang from Morgan Stanley. I've got two questions. My first one is along your comment about keeping more of a capital buffer to take advantage of any opportunities. And I was just wondering if you can tie that in with your comment on marketing conditions remaining the same because on the one hand with the capital buffer, it sounds like you could be more positive with regards to the outlook but on the other hand, you still host (16:30) commentary about pricing pressure, et cetera.

And then my second question is on the capital impairment and capital leasing (16:38) industry. And I was just wondering if I could get your thoughts on how you see that playing out this year because you've already seen a couple of instances in the industry of the surcharges for example and whether you think that could start turning in the market this year with capital leaving the industry? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. So I'll start and then if Denise wants to comment or anything. So I think it's a fair comment to say that our capital position is better than we thought it would be. Clearly, Q4 was better than we thought it would be. We renewed the major reinsurance programs that we do at the 1st of January and we broadened some coverage and that freed us some capital. So I think our capital position is better than we thought it would be. So we have a large buffer than we expected.

On the question about what could we do with that capital, it'd be lovely to use that capital for underwriting opportunities and who knows when those opportunities are going to appear. I suppose – I would say, like I always say that as every day goes by, the margins get more difficult. And if you look at the whole industry, there appears to be cracks appearing now and a lot of the signs that you would expect start to come now. I mean clearly we don't write casualty book, but there's clearly some problems with some companies with casualty reserves. And it just feels that the margins are so tight now, any kind of loss could push a lot of people into the red, start impairing capital and that's when we're going to see things changing.

So I think what everyone needs to step back and remember including our result which I'm absolutely delighted with, there have been no losses really. I mean there's been midsize losses and energy losses and day-to-day losses. But there's still been no cat losses, and that's why we still believe when those losses come, which they will, which is probably the only thing we can guarantee, that could change the market quite quickly and the people with good numbers with available capital can take advantage of the opportunity. So maybe we're being more cautious than what we normally are. That's clearly always a good thing to have more capital than less capital.

And as Denise said, if we come through this year and we have no losses and there's no cat losses and (19:01) book clean wind season, we'll look at our capital position again and assess that and work out what dividend we can pay to shareholders.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Okay. Great. Thanks very much.

Operator

Thank you. We will now take the next question from Olivia Brindle from Bank of America. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. Two questions from my side. The first one just linking into the discussion around capital. What are your thoughts on the ROE that we should be bearing in mind at this point for the coming year? Obviously, you've talked about difficult market conditions and probably carrying more capital than you think is necessary. So what does that mean for the likely returns?

And then the second point around your reserve in (19:51) position which I guess is usually quite difficult to assess from the outside. But one thing that you do show is the ratio of IBNR to total reserves and that's been trending down for the last couple of quarters, a reasonably steep reduction, I guess, at the full year compared to the second and third quarters. Just your thoughts on that and how you think about that would be helpful? Do we see that as a trend? And what should we expect going forward? Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Olivia so, on the – we don't give formal guidance on ROE. Clearly, our returns are always going to be affected by loss activity, but we are still more than confident we can – with the portfolio we have that we can provide an acceptable return for our shareholders. So we're relaxed about that. And the additional capital we're holding doesn't really drag a huge amount on ROE, so we think it's worth keeping.

On the reserve part, from where I am sitting, unless I'm really sort of seeing it in a different way, I don't really think our position has changed massively year-on-year. If you look at – I'm not sure what numbers you're looking at but if you look at the...

A - Denise O'Donoghue {BIO 15315126 <GO>}

It's gone from 35.2% as a portion of total reserve to 34.6%, so I consider that pretty consistent.

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. I'm not sure we'd agree with that one.

Q - Olivia Brindle {BIO 17273762 <GO>}

I mean, just if you look at the second and third quarter numbers, they were a fair bit higher. So, I mean, what – do you have a sort of – how do you think about that? Do you (21:29) or just given that you have obviously released quite a lot of reserves in the last few quarters. So, is that being replenished to the same degree basically as what (21:43)?

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. I mean, look, quarterly reporting for us is something that we have to do, but we don't take a huge amount on the basis of individual quarters just because things can change quite a lot. And as we've said on numerous occasions to everyone that quarters can be bumpy and reserves can move one way or another.

So, I would focus on the year-on-year more than anything if I was you. That's the way we look at it. So an individual quarter to us is not really a fair reflection of the way we feel about the business. But if you look at the year-on-year, we don't think the change is material.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Thank you.

Operator

Thank you. We will now take the next question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, guys. Thanks for taking my questions. Two from me, thinking a bit about the loss ratio. So firstly, just on the attritional loss ratio guidance, so I know you guys have been sort of talking about mid-30%-s. Does that still hold given the continued pricing pressure that we've seen come through, and especially given, like, I guess, the premium base is going to be a bit more stable from here? So does that imply more pressure should flow through?

Secondly, just thinking a bit about the large loss and the cat load (22:57). I mean, in my model, I used about 7.5 points at the moment for large losses and for nat cat. So I've taken that down a touch over the last few years just because you bought more reinsurance. But I just wanted to since check that number and just ask how you're thinking about that as well? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Denise will (23:14).

A - Denise O'Donoghue {BIO 15315126 <GO>}

Sure. Yeah. We still believe that the attritional loss ratio in the mid-30%-s is a good guidance on go-forward year. And unfortunately, we don't give guidance on where we think cat or large losses will be. That's pretty difficult for anyone to take a crystal ball, so we won't give guidance on that. But definitely, our attritional loss ratio is expected to remain stable.

Q - Jonny Urwin {BIO 17445508 <GO>}

Well, I mean, just on the second point, is it sensible to be taking that load down just given the amount of reinsurance you bought in recent years? I don't know, I mean, how much should we be thinking that taking down if that's correct?

A - Alexander Maloney {BIO 16314494 <GO>}

(23:55)

Q - Jonny Urwin {BIO 17445508 <GO>}

All right. It's worth the try. Thank you. (23:53). It's worth the try.

Operator

Thank you. We will now take the next question from Andreas van Embden from Peel Hunt. Please go ahead.

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

Hello. Good afternoon. Three questions from me. First of all, what is driving the reduction in the gross PMLs? It seems that the risk appetite has declined on a gross basis pretty much across the board.

Secondly, on your Gulf of Mexico energy book, we've seen some growth in 2016. But if I just compare the portfolio at the end of 2016 versus 2012, it's just shrunk to about a third in terms of premium volume versus 2012. I'm just curious of what your expectations are for renewals in the Gulf of Mexico in the first half of 2017.

And then finally, on Kinesis, if you could just mention what the AUM was, assets under management, at the end of 2016 and whether there's any change in your underwriting strategy within the fund? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. I guess we'll go to Paul for the first two, and then I'll pick a little bit on Kinesis at the end.

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

All right.

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Andreas.

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

Hi.

A - Paul Gregory {BIO 16314515 <GO>}

So on the gross PMLs, as we've always said, deals don't make sense for us (25:25) we're not focused on top-line, we're focused on whether the deal makes sense. So there were some things that - most things (25:31) were pretty orderly, but there was the odd thing here and there that in our minds didn't make sense, so at that point we were perfectly prepared to walk away where we were fortunate if there were some other business that wasn't quite as PML heavy that we're able to write which we'll see is going to help premium levels in 2017. Obviously, on the net basis, that's why you see the impact of the revised reinsurance program or the reinsurance program that we were able to purchase at 01/01.

And on the Gulf of Mexico, premiums they're always going to be a touch lumpy just because if you recall and I think it was around 2012 we had started right in the multiyear sales. The impact from 2015 to 2016 if you look at it in terms of clients, it's broadly the same, it just really the impact around that. It's not really a change of appetite or anything like that. So, hopefully, that answers your question on Kinesis.

A - Alexander Maloney {BIO 16314494 <GO>}

So, Andreas, so on Kinesis, (26:36) relatively flat year-on-year. He has something to do with the Chinese not that materially. So he would - he's had a successful season, but he hasn't really sold that much more, which is quite hard to do. He hasn't had to give up too much rates as we've said Kinesis is the same as most reinsurance products. So, it hasn't really given up much on rates and the product we sell is still relatively unique.

So, if client base hasn't really changed much, we've kind of renewed about the same and that's probably in line with what we expected. We would've loved to sell more, but it's very hard selling new products in this market. So, it's pretty much the same year-on-year.

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

So, the assets are $340 million to $350 million?

A - Alexander Maloney {BIO 16314494 <GO>}

No, it's less than that. It's under $300 million. It's very similar to what it was the year before.

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

Around $300 million, okay. Just going back to the Gulf of Mexico, is there any change in terms of the appetite to insure more in the Gulf of Mexico going into the second quarter? Is it being able (27:48) more appetite, or is it still sort of at the bottom of the market?

A - Alexander Maloney {BIO 16314494 <GO>}

So our appetite at the moment, Andreas, based upon what we expect to happen, is broadly the same. So we've got a very niche portfolio of business in the Gulf of Mexico, and we would happily renew that portfolio as long as the market is relatively sensible. We obviously lead almost all of that market, so some of that is in our own hands, which is helpful. So long story short, not a huge change in appetite, assuming that the market behaves sensibly.

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

All right. Thanks.

Operator

Thank you. We will now take the next question from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Afternoon, everyone. Three questions. First, I was just coming back to the market turn scenario. If prices do - if we do get a loss event, it does (26:45). What is the kind of strategy on additional capital? So you've got a bit of a buffer here, but do you still kind of raise into Kinesis, and then maybe look to kind of tap shareholders? So any kind of thoughts on that first would be really helpful.

And secondly, just on the Lloyd's business, obviously last year was the time of kind of great transition, so the business premiums came down kind of, I guess, in line with market. Looking to 2017, should we expect the, I guess the top-line to stabilize or grow or kind of - directionally, what should we think about that? Because I know market conditions are still pretty tough (29:23). Any thoughts really helpful. Thank you.

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

Right. Okay. Kamran, so just on the sort of what turns the market, I mean, that's the question everyone wants the answer to. I think, as I've said many times recently, not much has got to happen for people to go into the red, and even then, things may not change. But clearly I'm a huge believer in human behavior changes once people lose enough money. And I think when that happens, things could change quite quickly, and none of us know what that loss might be. But, I think the days of people talking about $50 billion (30:01) events and numbers such as that, I think the markets (30:05) very much in the red way before that. So, I think it could be a smaller event on what people think. And I think you saw some of that when we had the Canadian wildfires this year. You had even some pretty large companies not making underwriting returns for an event which was sub-$5 billion. I think that kind of says a lot about where we are in the cycle.

I think whether we need capital or not depends on the event and where we raise capital depends on the event. In all likelihood, it would be a cat event that is the opportunity and what changes the market and we could raise capital for our own shareholders. We have a pre-emption now. We could raise capital for Kinesis. We have lots of old family and friends that would love to give us capital if the opportunity were there.

So I never really worry about raising capital. I always worry about us getting our numbers right and having the appropriate amount of risk in our business at the appropriate time, which is why we bought so much reinsurance compared to what we used to. But, we would love to assume more risk. We would love to expose more of our capital if the event came along. But clearly, you have to be there and in good shape to take advantage of it when it happens.

On Cathedral, yeah, 2016 was a big year of operational change for us. I'm delighted with the people that we've been at (31:27) to attract to the business. And one of the big, one of the big sales purchase, if you like to get people to join the group is our underwriting plus fee. We have a sensible board and we have sensible bunch of shareholders that understand this business is cyclical. (31:44) attract good people and not everyone subscribes to the big (29:52) some people do at the moment. So, that play to our advantage. But saying all that, even with the good people we have, growing is still very difficult. So, I'm not going to sit here and say, we're going to grow Cathedral. We always look at opportunities to bring in new teams of underwriters and Paul Gregory spent his life looking at these things. But again, it's quite difficult.

There are lots of good people around, but some in the margins just don't make sense. So, we will always look to grow the business. We've always wanted to do that with Cathedral. We haven't done so far very much. We did add one aviation team. We look at constant opportunities. But, as we've said on a number of occasions, we're only interested in trying to improve our return to shareholders. So, we're not going to grow unless we feel there's a positive benefit for our shareholders. And at the moment, it's about protecting our core account and then protecting that core account with the reinsurance we could purchase.

Q - Kamran Hossain {BIO 17666412 <GO>}

Fantastic. Thanks very much, Alex.

Operator

Thank you. We will now take the next question from Joanna Parsons from Stockdale Securities. Please go ahead.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Thank you. Just a quick question on the gross premium written. Firstly, you said in a statement that a good percentage of the growth in the property book was on political risk (33:19) you say and you've mentioned before is quite lumpy. So, I just wondered if you could give us a feel for how you see that portfolio developing in 2017. And just perhaps a little bit more color behind why you're saying you don't see the gross premium written coming off of that much? (33:38) to your core book, but we still got margin pressure and the multi-year deals in the past have caused quite a lot of noise in the top-line. So perhaps just a little bit more of a color as I say around how you see the premiums leading through in 2017, please?

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. So, Paul will talk about your first question about political risks and then move out to Denise or Natalie on the second one.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Joanna.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Hi.

A - Paul Gregory {BIO 16314515 <GO>}

Yeah. As you rightly say, on political risks, it's a very lumpy class and there's often a long lead time into any deal. So you may be looking at a deal now and you may not see it by, let's say, for another six to nine months. So it always makes it very difficult. So whatever I say now, it's probably going to be wrong. I'll caveat it with that. But, we would expect if you look 2015 and if you look at 2016, something in between those kind of numbers is a premium. But as I say, huge caveat on - it's very lumpy - it's still with quite a significant premium and it moves around every single year. So very, very difficult to give you any real guidance. But, I think 2016 was a good year when there was a few things it found, it might not be at those levels through 2017, but it could change on the basis of (33:06) deals.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Okay.

A - Paul Gregory {BIO 16314515 <GO>}

Sorry. (33:09)

Q - Joanna T. Parsons {BIO 1558226 <GO>}

So it could be anything basically.

A - Paul Gregory {BIO 16314515 <GO>}

It could be anything, Joanna, yes (35:12). It's a very politician's answer.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Yeah. Thanks.

A - Denise O'Donoghue {BIO 15315126 <GO>}

And I'll take the multi-year contract renewals. Pretty much, we see there's less of an impact now and don't see that much going forward. There's a number of multi-year deals that are not up for renewal yet and some that were written years ago that are coming up. And so, we sort of see on a year-on-year basis, it should become more stable. I think where you'll see a little bit of movement is between the quarter, because there's some - the non-annual new deals that are 15 months or 18 months can come up to the quarter. But then, over the years, you should see it stabilize.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Okay. Thank you.

Operator

Thank you We will now take the next question from Ben Cohen from Canaccord. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Good afternoon. Hi. I just wanted to ask a question on Cathedral, please. It was just - if you add back the reserve releases that you had in 2016, I guess, the combined ratio is just below 100%. I just wonder the degree to achieving, you can kind of hold that line, if you like, in terms of something maybe akin to an accident year view, although I appreciate you're going to be putting some margin in there and maybe just comment on sort of how exceptional or otherwise you saw the year from a sort of a attritional loss point of view with regards to Cathedral, in particular. Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Ben (36:50). I think, yeah, that's a broader question for the whole industry. I think if you look at everyone's results, when you start taking out reserve releases, I think that paints quite a interesting picture. I think from where I'm sitting, Cathedral is wonderfully consistent. And if you look at what happened this year, you had the kind of the wildfires, you had some other losses and the return that Cathedral made still exceeded what we would expect it to make.

So, I think the beauty of the Lloyd's business is, it's very well reserved. We haven't changed any of the reserve in there. And if you look at the percentage of it, best estimate, we are at Cathedral, again, that's consistent. It's just wonderfully consistent. So, I don't think there's any real change for us last year. It's a well-reserved business. There's not much (37:46) I can say about, really.

A - Denise O'Donoghue {BIO 15315126 <GO>}

Yeah, I would just add they've contributed 3.4% to our return last year and 3.6% for early this year. So, I'd say pretty consistent.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Fine. And presumably your comment on reserving, you still got quite a lot of held over from the 2015 accident year that would be released into 2017?

A - Alexander Maloney {BIO 16314494 <GO>}

We haven't changed anything (36:10).

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thanks. Thanks very much.

Operator

Thank you. There are currently no further questions in the queue at this time.

A - Alexander Maloney {BIO 16314494 <GO>}

Well, okay, thanks for your questions and we'll talk to you next quarter.

Operator

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