



## Talisman Report January 2019

As we look ahead to what the New Year might have in store for us it is clear that Brexit will dominate the news until we know if there is a deal or not.

Lloyd's was in no position to wait for that decision and has opened its office in Brussels. Business from the EU is now being placed there as planned and policyholders new and old are being catered for as are those with outstanding claims.

We welcome John Neal who took over as CEO of Lloyd's on 15 October 2018. We have met with him a couple of times and firmly believe he has the qualities and vision needed to ensure Lloyd's moves rapidly with the times and remains the world's leading and best speciality market. He has set out various work streams within the Corporation to achieve this with market performance and costs being high on the agenda.

We have just witnessed Lloyd's asserting itself, in a manner we have not seen before, with the business planning process for 2019. The so-called "Decile 10" exercise that was imposed, witnessed syndicates pruning the poorer performing business from their books. A smaller but more profitable Lloyd's in the short term is the correct course of action, but we do look forward to profitable growth at the right time. It is worth noting that the syndicates on which Talisman has the majority of its capacity were amongst the least affected by the Decile 10 exercise. Lloyd's contains some exceptional businesses and we would expect them to be allowed to take advantage of opportunities outside of their business plan should any occur. Those in the top quartile must not be held back by those at the other end of the spectrum.

The January 1 renewals always attract the most attention, although those at April, June and July are of equal or more importance for some. For those with a good record the major brokers are reporting little improvement in reinsurance rates for property risks, as capacity remains abundant, whilst rates for liabilities are improving. Further investigation though shows that those reinsurers who are more selective are receiving an increase in premium for the risks they take on. In the direct market increases are generally being achieved with various underwriters stating that some are more than expected. Nonetheless in certain classes there is a long way to go after a number of years of compounding reductions.

The results for the 2016 year of account will be published on Thursday 28 March. Talisman is forecast to have a mid-point profit of 1.5% of premium income, although overall the Market will likely be in loss.

The 2017 year of account will be in deficit, due the record cost of losses. Talisman is forecast to have a mid-point loss of 6.9% and should again outperform the Market.

It is still too early to make a firm prediction for the 2018 year of account although we believe the calendar year will be a loss for Lloyd's overall. A proportion of the cost of losses in the calendar year will fall back onto the 2016 and 2017 years of account leading us to suggest an overall profit for Talisman for the 2018 year of account should arise, subject to the usual caveats, as much still remains on risk. The first estimates from managing agents will not be received until the end of May 2019 and we expect them to be conservative.

We welcomed fifteen new investors into Talisman during 2018 which resulted in the company's underwriting capacity moving up from £22.5m to £25.0m for 2019. The additional capacity was obtained by the use of the capacity auctions and by the purchase of three small underwriting vehicles.

The price of capacity increased at last year's auctions by 30% on an average weighted basis. This increases the asset value of Talisman and thus the entry price for new investors, for the 2019 year of account, will move up to 73p for an A share and £730 for a Unit including Loan Stock.

Looking back, investors in Talisman benefitted from the relative low incidence of loss in the years 2012 to 2015 and received excellent dividends. However with an oversupply of capital, market conditions have remained soft despite the losses of 2017. Remedial action has been taken by Managing Agents enhanced by the business planning oversight of Lloyd's and the Decile 10 exercise. Further pressure to perform has been applied by the PRA who have questioned all insurers on both pricing and reserving. Whilst the 1 January renewal rates for reinsurance may be a little disappointing, we expect more momentum as we move through the first half of the year. We depend on the Managing Agents to produce viable business plans that we can support and will be liaising with them continuously.

All capital providers require a positive return over the cycle and it is noteworthy that those investing in Insurance Linked Securities (ILS) are similarly becoming more demanding, as some products have performed poorly, and are now requiring higher pricing. There is every reason for some optimism and we should see a gradual improvement in the Market as we move through the year and into 2020. The trumpets are not playing yet but the best at Lloyd's will have advanced before they do. Talisman will continue to support those syndicates that it believes have the best potential for profit within our risk appetite.

More comment on the above will be given in our mid-year report.