Transcription

RSA Q1 2020 Trading update call

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07 May 2020

PRESENTATION

Operator

Hello and welcome to the RSA Q1 2020 trading update call. Throughout the call, all participants will be in listen-only mode and afterwards there will be a question and answer session. Just to remind you, this conference call is being recorded. Today, I'm pleased to present Stephen Hester, Group Chief Executive, and Charlotte Jones, the group CFO. I'll now hand you over to Stephen.

Stephen Hester (Group Chief Executive)

Good morning everyone and thank you for joining us. Obviously this trading update in some sense is a conventional one and in another sense is unconventional because of the circumstances and the extra information we are providing. So I will make some opening remarks. Then Charlotte will take you through the Q1 results that we have put out in our statement today and I will come back then and take you through the additional information that we provided on the coronavirus impact as we see them today and then, of course we will take as much Q&A as you want us to do. The three points I wanted to make really by way of introduction are as follows.

First of all, I believe that you will come away from this call, and from reading our update, believing as we do, that we are reporting a strong first quarter result, that RSA is in good shape, at both on a fundamental basis and to weather resiliently the corona crisis.

The second point that I want to make though, and I think it is a really very important point, is that all of the corona crisis has of course reminded us of many, many things that are more important in life than trading updates and share prices and so on and so forth. It's life and death, its health, it's wellbeing, its happiness around the world. And so you know, it's inappropriate I think, to begin any call like this without the recognition number one, of all of those people around the world who have suffered loss or illness or anxiety and of course, the extra anxieties for many of the rest of the world are facing in terms of economic uncertainty driven by the health uncertainty. So there's absolutely no moment more important to emphasise that we all understand that we are one community, we are one world, and if you like the whole social aspects of business and community are to the fore in addition to the economic aspects which remain important.

And in that context, it's certainly true that, on an ongoing basis and in recent weeks, our intense focus has been both ensuring that RSA can work its own staff safely from home, that our own staff are in good shape, and are in turn able to keep the company going and to service our customers as close to business as usual as possible. And that's being very important, will continue to be very important to us. And we also in that context, have not been taking advantage of government furlough activities. We've tried to be a responsible employer in every respect.

The second thing that has been absolutely front and centre and will continue to be, is the wellbeing of our customers - to the extent that we can impact that, people often forget that in the face of coronavirus, our industry nevertheless pays out many tens of billions of pounds in settling claims in normal circumstances and business-as-usual claims, and we must keep doing that well and dealing with customer anxiety and disruption of channels, which we are doing. And of course, navigating our way through the corona impact with our customers is very important, both in a claim sense and in terms of premium adjustments and other things reflecting the changed circumstance. So our focus is incredibly strongly on our communities, on our staff and on our customers and will continue to be so.

But the third point that I also wanted to make and bringing us back to the meat of this trading update is of course there is another very important stakeholder group to us at RSA and that is our shareholders and in a sense I want to apologise to our shareholders - our share price has performed very poorly. We had to make a difficult decision on the dividend in common obviously with a number of other people and it has been difficult for us to provide the reassurance that we wanted to do until we were able to assemble the proper facts with which to do so. Of course, until we're all the way through the crisis, we won't be able to do that fully, but I hope today we have enough to give a great deal more reassurance than has been apparent in our share price. We understand that this company is here to serve customers and shareholders. We feel strongly that responsibility - all of us in the management team are heavily exposed to the fortunes of our share price and our company and be in no doubt of our determination to demonstrate that the share price is currently too bearish over time.

So those were the three introductory comments that I wanted to make. Charlotte, perhaps you could take us through Q1 and then obviously, since Q1 seems a very long time ago, I will take us through what we know about the last six weeks or so. Thank you.

Charlotte Jones (Group CFO)

Thank you Stephen and good morning to everyone from me as well in these very challenging times.

As Stephen said, our first quarter results were strong. We continued to deliver on our plans and build on the momentum seen in 2019. So as usual, I will give a brief summary of performance, capital and balance sheet for the quarter.

Beginning with top line. Overall and in line with our plans, group net written premiums were down 1%, excluding exits, when measured at constant exchange rates.

Looking at the regions, in Scandinavia, the overall premium reduction was 3%. Within this, Personal Lines premiums grew. Driven by good new business performance in Swedish Home in particular as well as continued rate increases. However, this was more than offset by Commercial Lines reductions as we continue to take underwriting and pricing actions in the Danish Commercial business. Notably, in relation to the 1st of January renewals. These are critical steps as we continue our work to remediate the book and target improved Danish profitability.

In Canada, market conditions remained hard and helped us to secure rate increases above Q1 last year in all major lines. Overall, premium growth was 8% in the quarter. And we saw another really strong performance in Johnson. Our partnership with Scotiabank continues to add to the top line and is performing in line with expectations.

Commercial Lines premiums contracted - strong rate increases were more than offset by targeted lapses and lower new business.

In the UK and international, premiums fell 5% (ex-exits). UK Personal Lines premiums were down. We saw modest growth in Household driven by stronger retention and new business. However, Motor and Pet both saw declines, despite better retention as continued rating action impacted our new business sales.

UK Commercial Lines premiums were down, reflecting continued underwriting and pricing action with strong rate increases and discipline driving lower volumes. Pleasingly, we saw continued strong performance in our Regions business.

Premiums in Europe were down year on year, although better than our expectations. Irish premiums were broadly flat and in the Middle East premiums were down reflecting the continued tough trading conditions.

Moving now to profitability. The Group's underwriting result and business operating profit were both up by double digit percentages, both including and excluding the exit portfolio. Now, unpacking that a little, Group weather costs were 3.7% of net earned premiums. The UK, as you'll remember, was impacted by storms Ciara and Dennis in February, costing a combined 33 million pounds, which resulted in a significantly higher weather ratio than Q1 2019 for the UK. In Canada, however, milder than expected Q1 weather meant a ratio around five points better than Q1 2019, which you will remember was a heavy weather quarter across the industry. Scandinavian weather was benign in the quarter, about a point better than last year.

Moving to large losses, they were 8.9%. An improvement in the large loss ratio in Canada was offset by an uptick in the UK and International ratio, albeit as planned. Scandinavian large losses were flat year on year, although better than our expectations for the quarter.

The attritional loss ratio showed a pleasing improvement overall versus last year - with each region contributing, in particular, Canada. This is another important signal about the continued effective delivery of our plans and indicates that absent Covid impacts, we would be on track to continue this trajectory in Q2.

The prior year underwriting result was positive and better than Q1 last year, which you'll recall was flat. No one business area saw material run-off. Overall, the favourable areas more than offset those where reserves were strengthened. And this was after we made a prior year provision of 12 million pounds to recognise the potential for inflationary effects on prior year claims as a result of the Covid crisis. Reserve margin was unchanged from year end.

The written controllable expense ratio was marginally increased on last year. The 1% down in real terms and we are starting to feel the benefits from the UK Cost Programme.

The combined ratio was improved on last year, with all three regions better than or at their planned ratios at this stage in the year, and in line with good performing peers in their respective regions. Investment income in the first quarter was consistent with our guided range. Recent market volatility means that our outlook for the remainder of the year is down slightly, but still within range.

Below the group operating result, there are a few items to mention. Although now largely runoff, our UK and Europe exit portfolio generated a loss in the quarter, driven by a single large claim and some adverse prior year development. We saw around 30 million of impairments and market to market impacts as a result of the market volatility experienced in the latter part. Of this, around 20 million related to market movements on inflation derivatives which could be offset by further moves or over time will be offset by movements in estimated inflation in our liabilities. 9 million pounds of UK restructuring charges were also booked as the UK continued with it cost programme.

Turning to the balance sheet and capital. Tangible net assets of 3.2 billion pounds are up versus the end of last year. Increased IAS19 pension surplus and year-to-date profits more than offset negative market movements.

The Solvency II coverage ratio was estimated at 151% at the end of March, compared to 168 at the year end.

This reflects the significant market impacts experienced towards the end of March, as well as planned pension contribution and other seasonal impacts that impact Q1. It includes the full 2019 dividend accrual. Excluding the 2019 final dividend accrual, the ratio was estimated at 160%.

The primary drivers of the market movements in the latter part of March were widening credit spreads, falling equities and lower yields, with Sterling strengthening providing a slight offset. Over time, we would expect these impacts to reverse, should markets stabilise.

Factoring in some improvements in market conditions through to the end of April, we estimate the ratio has improved to 153%, including the 2019 final dividend accrual, and this is estimated at 161%, excluding the dividend accrual. All of these coverage ratios remained well within our target range of 130 to 160%.

Balance sheet unrealised gains of 204 million pounds were down about 167 million pounds since year end. This reflects declines across the non-government bond portfolio, illiquid credit, REITs and preference share values only partially offset by modest gains on government bonds.

The IFRS pension surplus in the UK increased by 413 million pounds in the quarter to 668 million pounds, net of tax. The improvement was driven primarily by widened credit spreads of about 80-85 basis points and contributions made, partly offset by weakened equity returns.

So, to summarise, we are pleased with the Group's strong performance for the first quarter. RSA remains resilient with a strong balance sheet and capital position. Stephen will now cover how we are thinking about the Covid impacts in a moment. And notwithstanding the challenges associated with Covid-19, we remain absolutely focused on the delivery of our planned action for the quarters ahead. With that, I'll hand back to Stephen.

Stephen Hester

Charlotte, thank you very much. And so, as you can see, entering into the Covid period, RSA in terms of business as usual, had good momentum - we were on track for our ambitions for the year, albeit early in the year to make that judgement, of course, and pleasingly, we were showing good momentum in some of the remaining areas that we needed to fix from last year, such as Danish Commercial results. Of course, as I mentioned, Covid has now overtaken a lot of the fundamentals, at least in terms of attention span, if not in terms of the fact that fundamentals will in the end, reverse and become important. And so, what we've tried to do, is to give you as much information as we are able to on how Covid is impacting RSA, and how RSA in turn is dealing with Covid, as it relates primarily to serving our customers. Of course, there are all sort of caveats I don't need particularly tell you them, although some of them are written down. There can be many twists and turns in this journey for the world, as well as for all the participants within it yet to come. And any estimations made now might prove to be wrong in either direction as we go forward, but nevertheless we do have, I think, now a certain amount of data in the time that the lapsed to try to be helpful.

As is mentioned in our statement, of course, a huge amount of our time has been spent on the customer aspects of this and they fall into three buckets. One of course is being able to keep contact with customers and keep servicing them. The second is on the claims front and the third is on the premium front. We put in place a claims charter which aims for Covid-related claims to ensure that we don't run backlogs that we have prompt attention to claims, so people know where they stand quickly, that aims to get cash and interim payments out quickly to customers where we feel that there is a valid claim. And also right across our supply chain where of course many SMEs, people, like building contractors and so on, rely on us to get a prompt and interim payments out to supply chain on claims. So, a lot of work to make sure that we are being fair, being transparent and being proactive in supporting customers and the supply chain on the claims process.

Similarly, in terms of customer premium, while there are nuances across business lines and across different countries right around the world we're doing a whole range of things from responding to customers' request to reduce coverage, such as if mileage is important to premiums, reducing that; sometimes taking second cars off on business interruption; sometimes when there are turnover triggers and making adjustments to turnovers, giving extra coverage to NHS workers and the like. So, a huge range of what I call 'customer relief measures' across our different territories, in some instances price capping and payment reductions. And we are also participating very fully in trying to help vulnerable customers in a financial sense where people are having difficulty paying and agreeing extended payment terms and so-on with them. So, that is taking a great deal of time attention - it should do - it's all part of the contract we believe that we have with customers, even though of course in stressed and difficult times, that isn't always recognised.

Turning to, if you like, the shareholder perspective on Corona. What we have tried to do is to present in this statement the data - all of the data to the end of April that we have - so that's about six or seven weeks of data that we have in terms of how Corona is affecting RSA, and there are obviously a number of aspects to it. The first aspect that we lay out in our statement is what I'll call "what's happening to business-as-usual" and as you would expect when economic activity very sharply reduces, then a whole series of claims also reduce through less economic activity. And so, we have seen across our regions between a 20 and a 55% reduction in claims frequency in the month of April compared to the same period the year before. It's obviously not perfect data because frequency isn't the only way to manage it, and there will be other things it will be different between last April and this April, but nevertheless, it's an indication. And when you go into individual business lines, the range is bigger. There are some business lines where frequency is down by more than 55% and some down by less than 20%.

As you'd expect thinking about it, the areas least impacted by Covid-related reductions in activity have seen the least decline in frequency and vice versa - and Scandinavia of course comes out probably top of the pack in terms of our regions in that regard. And while this reduction in claims frequency will obviously not last forever, in fact, we've already seen minor upticks in the claims frequency as economic activity just ticks back again in recent weeks. Clearly, there will be, for a period of weeks, some important reduction in claims costs for us and that provides a very important source of funding, both for the premium adjustments that I talked about for customers and for Covid claims, and I think a source of funding that has been significantly underestimated by many analysts and commentators.

But that's exactly why we are making the customer adjustments we are making, of course. Then turning to our claims experience. Of course, we can't know whether the last seven weeks, how representative the last seven weeks of claims experience is. I think I would have expected that the most intense claims experience would be in the first seven weeks of the crisis as everyone look through their insurance policies to see if there are basis on which claims can be triggered and a great deal of attention is clearly gone into that. So, it suggests to us that this may be the worst of it in the first seven weeks, and certainly the volume of claims being made is declining week by week after the initial few weeks. But obviously there are plenty of twists and turns that can come, yet.

RSA is exposed to Covid-related claims in primarily three areas. The first is travel insurance, and in all of our regions we offer some amount of travel insurance and it's obvious why that would be triggering claims across the industry and for us. Our claims intensity is greatest in Canada where it's a significant business line for us. However, we have very good reinsurance both in Canada on a specific regional basis and globally and that limits the total net cost to us of travel insurance to very low single digit cost, even though as you can see from our statement the gross cost in the last seven weeks has been something like 16 million pounds.

The second area is event cancellation insurance and we are fortunate in having avoided what I'll called 'major event' insurance and therefore pretty much are only exposure to event cancellation is in the UK where we insure a significant share of weddings which obviously have seen quite large cancellations and postponements. And there, we have a total cost of claims, so far, of about seven million pounds. I should say, all of these numbers are of course estimations, because most of the claims have not been fully settled yet, as we are still trying to establish facts and so the numbers we're giving our estimations based on the information we have, those claims that we have settled in trying to assess what read-across there is from other claims, where we're in the process of settlement.

Although I think the seven million number will climb a bit as time goes on for wedding cancellations, it seems unlikely to climb by multiples from this point, and so that should remain a manageable number. And then finally the area, which obviously has got the greatest attention both in the press and I think in commentary around insurance companies is business interruption and related commercial lines claims. And I think it's obviously important to underline here that the insurance industry did not intend to underwrite pandemics and did not charge premiums that were priced to underwrite pandemics, and as a result of that, the great majority of Commercial Lines policies do not respond to pandemic coverage. However, right across the industry, there are wordings that have not been written as well as they might, which provides some ambiguity in a position which no one expected to find themselves in, either customers or the industry, and where those cases of ambiguity are arising, then there are valid claims that are also arising, and we and other industry participants are of course, paying on those claims, and certainly from RSA's perspective, our view is that if the balance of interpretation lies with the customer, we should pay the claim and we are only not paying claims where we have a strong and clear legal advice that the policy does not provide for it.

So, in total at the moment, we have about 17 million pounds of business interruption claims. Or at least that's the amount we believe we will pay out for those business interruption claims that we believe do have coverage. It is of course an estimate and the great majority of that relates to the unique position to the UK and the European businesses that attach to the UK.

For Scandinavia, really Travel has been the only issue. As you can see both from ours and from other people who have reported and in Canada again, Travel is really the only issue for us and there's really negligible impact from business interruption at this stage of the claims cycle, and so the UK is very much the focus for us with smaller amounts in places like Ireland and Europe.

This data is given. There are of course some claims that we've received, that are not in this data that are too early for us to be able to assess, but I would say that our claims backlogs are probably the lowest they've been in quite a long time because we've had time to settle claims, so I don't think that those large amounts of stuff that we're sitting on that is not contained in this number, although obviously as we go through May and June and so on, we will get more claims. What I should say is, is that one would not take this number and multiply by a number of months of lockdown, because of course the great majority of claims when we have done an estimate here, we've estimated what the total claim will be with a view to how long the lockdown. If the lockdown is relevant, in many cases it isn't relevant, and calculating the business interruption and so my own view would be that this is not a number that increases in a straight line over time.

We also remind you of our reinsurance coverages and that is to say that away from the Travel, which is largely reinsured, our primary protection from a reinsurance standpoint is our Group Volatility programme, which as you all know attaches over ten million and then our different CAT programmes which attach at higher levels are all set out in detail in our full year results and the way that those work is that we can aggregate all global claims that are triggered within any one week period to a single claim for GVC or for CAT purposes, and therefore if it ever became the case that the downside claims scenarios occurred, it's likely that something like the UK lockdown would be a key trigger for the downside claims scenarios, and if it was, that would then push it into the reinsurance programmes, either GVC or CAT, depending on how downside you want to get.

We are as I said earlier on, being very, very certain to treat customers fairly in the assessment of claims, both in how we communicate, in the speed with which we do it, and making sure that customers get the benefit of the doubt if there is genuine doubt, whilst of course not paying where the law and the contract terms are very clear. It is inevitable there will be litigation around this, as there is around lots of insurance issues over time, and it's possible that the industry will and we will have made incorrect legal judgements or our lawyers will advise us incorrectly, which can lead to some costs, although hopefully then the reinsurance will be a protection but we have not been in any way cavalier in the way we've approached this, and the vast majority of our judgements have quite strong legal opinion backing to them.

I've talked already about the premium adjustments that we are making for customers, so there will be, if you like, significant premium impacts both proactively through customer behaviour and working with us and also recession-adjusted. And of course, those will have a pattern that they are likely to cost more later in the year as the earned impact comes through. Then they do immediately, which is one of the reasons why the claims frequency benefits will be important as a cushion against those.

So, those were the things that I wanted to talk about in terms of how Covid is impacting us, and we can now go over to Q&A. As I say, there are many, many uncertainties in the world around us. We can't remove those uncertainties or remove them from ourselves, nor would be appropriate to do so. But from RSA's perspective we're determined to be good citizens. We're determined to treat customers well and fairly. We're determined to keep our employees safe and we're determined to do the best possible job we can for shareholders in business as usual and in weathering this period.

Operator, thank you. Perhaps you could move to Q&A now.

Q&A

Operator

Thank you if you do wish to ask a question, please press 01 or your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

And our first question comes from the line of Jonny Urwin of UBS. Please go ahead, your line is now open.

Jonny Urwin

Good morning. Thanks. Very, very helpful, I think. Two from me. Firstly, on the business interruption and exposures. I mean you note that the great majority of BI claims will not be, or are expected to not be, eligible under coverage terms but for some specialist exposures. Can you please give us some insight into the policy wordings - why do the majority of policy wordings exclude BI? Presumably it's the requirement is for the virus to be to be found on the premises? But any colour there would be great. And then secondly, just on the solvency ratio - the sensitives. You also give them excluding pension fund and including pension funds, which should we be using at the moment given the pension surplus, thank you.

Stephen Hester

Charlotte, do you want to take the solvency? And then I'll come back on the wording.

Charlotte Jones

Yeah, I can do that. So I think we put the sensitivities out at the end of the year and I think we would say that they have moved in line with those sensitives, though of course in the period of stress you get some movements outside of that. We would still focus on the ex-pension view. And we see that the ex-pension interest rate has modestly changed over the quarter, but broadly in line. So, I think our answer is keep focused on the ex-pension. That's how we look at it. But certainly if you want, when we make pensions contributions that affects a little bit how that Q1 development happens, but that's a timing on when we make those contributions to the pension scheme.

Stephen Hester

And I think it's obviously worth noting, you'll see, as at the end of March we had very large pension surplus because of market movements. So one of the things I think the market was worried about was our pension exposure and actually it went the other way round - that surplus has narrowed in April as markets have rebounded a bit but still remains significantly above the cap for inclusion, so the pension surplus still provides a further cushion that is not in our Solvency II numbers on the capital front.

Turning to your question on BI, I'm afraid you've asked a question where I could probably go for a week in answering and obviously it wouldn't be fair on everyone else to do that. And the difficulty in answering your question clearly is there are there's no homogeneity in Commercial Lines insurance, either across insurers or across different schemes or types of policies in the way that there's a fair amount of homogeneity in Personal Lines.

And so what you find is every insurer has got a very substantial number of subtly different wordings for different types of customers, different schemes, different distribution channels. And that's why you get very different outcomes according to what those wordings have been, since none of them were written thoughtfully in the light of an unprecedented situation such as Covid. However, most of the time you need to have a policy that has business interruption and lots of people don't have this business interruption. Secondly, you normally need to have a notifiable disease extension to your business interruption policy and lots of people didn't purchase one of those. And thirdly, when you do have, for the subset of the subset that do have notifiable disease extensions, there are a whole variety of different wordings of those. In some cases they are worded so they apply to only certain diseases, of which Covid is not one. Because it hasn't been thought of by then. In other cases, they are worded more openly so they would apply to Covid, but in those cases normally you have to have Covid actually occur on your premises. And your premises have to be closed for cleaning as a result of Covid rather than as a result of government restrictions and in turn, the business interruption period is how long it takes to clean your premises, which is normally two or three days and therefore ends up not being a large sum of money.

And so, if you like for the largest number of policies, even that have business interruption, you find that the government lockdown is the reason they've closed, not the occurrence of Covid on their premises. And even where there has been Covid on their premises that what looked policy does respond, but it responds in relatively small amounts because it doesn't take long to clean for Covid and then the business could reopen if it chose to. There are many, many other variants which are not as simple as the one that I have set out, some of which provide for Covid in the vicinity rather than just on the premises, some of which provide longer lasting cover and some of which are different altogether, such as construction schemes where delays in construction can be an insured event if the delay was for any reason. So there's a whole range of these things, which I'm afraid, makes it very different. Difficult to summarise, better than I've done now.

Anyway, that's the best I can do for the time we've got, so operator, could we go to the next question, please? Thank you.

Operator

Thank you. Our next question comes from the line of Jon Denham of Morgan Stanley. Please go ahead, your line is open.

Jon Denham

Good morning, thank you very much for taking my questions. Firstly, I hope that you and your loved ones are well. So firstly, what assumptions have you made with regards to the duration of the impacted period when setting the 17 million reserves for business interruption claims received so far? And so, how did the assumptions you made compared to some sub-limits and are all of your impacted policies sub-limited?

Secondly, can you maybe give us examples of the types of specialist schemes where you're paying out claims that you mentioned construction earlier, but what are the types of underlying businesses?

And then finally, you said the rate of receipt of new Covid-related claims have slowed materially in the most recent weeks and what have you observed there for the 2000 non-travel claims? And is it possible to give us a sense of magnitude of this reduction? I.e. are these claims down 20%, 80%? Thank you.

Stephen Hester

Thank you on your last bit. The reduction is seen in the non-travel as well. In fact, I would argue it's been sharper in the non-travel than in the travel side reduction. I'm afraid I can't give you a percentage, as it is quite volatile but significant. It's not sort of two or three per cent, its double digit, significant double digit percentage declines. That doesn't mean to say of course it won't pop up again, but for the time being, that's where it is.

In terms of, again, it's very hard for me to give blanket assurances, but as far as I'm aware we do have sub-limits, certainly in all the major exposures that I've looked at that significantly reduce the Covid exposure beyond the business interruption limits where relevant. But I would say in a lot of cases the sub-limits are not themselves relevant, because in the example I gave earlier on, where way, you just close for three days for cleaning the premises, you don't get anywhere near the sublimit for those sorts of durations, and that's really the answer to your first question, that the great majority of claims in BI that are relevant to us are for periods that it takes for a business to be closed for the premises to be cleaned and therefore the duration of the Covid crisis itself isn't relevant. There are some for which it can be relevant, and then we were making different assumptions according to what the trigger is. But they would be assumptions that would be consistent with, if you like, the general public debate on likely time scales of lockdowns changing and so and so forth.

Jon Denham

Thank you, is it possible just to get just the types of underlying businesses which you expect to trigger?

Stephen Hester

Well again, I would say that's extremely difficult because there will be lots of different underlying businesses where you do trigger. It's just the trigger amounts are often small, so because as I say, we have quite a lot of policies where if you have Covid on the premises, that can trigger a claim, but it might be a three day claim and the three day claim might be for a pub or restaurant if it was before the government lockdown. So all sorts of businesses pre-lockdown have got small claims, but obviously those claims were knocked out by the lockdown when Covid on the premise was no longer the key item and then there are some other people that have got different kind of wording. There's one or two Channel Island claims we've got which are guest houses, where we've got different wording that allows them to claim for lost business over a longer period of time and so on. So unfortunately this doesn't lend itself to me giving you an answer that allows you to analyse anything with any precision. Sorry about that.

Jon Denham

No, thanks very much. It's really reassuring.

Operator

Thank you.

Our next question comes from the line of Freya Kong of Bank of America. Please go ahead. Your line is now open.

Freya Kong

Hi good morning - two questions from me please. So frequency was down 20 to 55% across your portfolio. Could we get a bit more colour on how this has impacted trading in the current quarter? And secondly, are you also taking part in the FCA legal **c**larification on BI wordings? Thanks.

Stephen Hester

On frequency, the short answer is I don't know. The frequency decline is so great, that it will save us a lot of money relative to our normal run rate, but it's impossible to know precisely how much, because only the passage of time will allow us to know: a) how quickly frequency comes back; b) any areas of frequency where people still claim but they're just delayed claiming ineffective for law firm was closed, or something that it may not have that we may get a rush of claims later and c) whether there is increased costs in settling claims because supply chains take longer to go out and fix things. And so at the moment we cannot quantify reliably what this is in millions of pounds, otherwise I would have done. But I think we can be confident that it provides an important cushion both against the premium reductions that were working with customers to give them and coverage changes and against Covid claims. Exactly whether one is bigger than the other and in what circumstances is too early to know.

Then your second question on the FCA. As I understand it, the FCA process has not concluded in terms of which wordings they're planning to take to court in the UK and which insurers they are planning to work with. We were not on the initial list of companies notified that the FCA was going to take to court, but that doesn't mean to say that we won't be on the final list. And also, I would expect that some of the people being taken to court will share wordings with us on certain schemes, even if they might be bigger than us in terms of those schemes. And so we will be keenly interested in the court process whether we are involved directly or whether we are indirectly involved. I think it is the right way to settle some of these issues, although it itself will take some time.

Freya Kong

Okay, thanks.

Operator

Thank you, our next question comes from the line of Andrew Crean of Autonomous. Please go ahead, your line is now open.

Andrew Crean

Good morning all. Couple of questions. Direct Line said yesterday that 99.5% of BI policies had un-controversially no Covid cover. Do you have a sense or can you give us a number of the number of policies with BI you have and anything around that you know what are clearly not offering Covid cover? And then secondly, could you talk a little bit more about the longer term recessionary impacts on how those are going to play into your premiums and how you feel about your cost base. Because clearly as you go forward, if premiums go down because of recessionary instances, you may have to look at costs again.

Stephen Hester

Yeah, thank you Andrew, for those. I can't give you-- Direct Line can give you that statistic because they have very small and very homogenous small business policies against which they can calculate it. We're a much more mature bigger Commercial Lines, more very commercialised business and so there isn't an equivalent statistic. It also is a useless statistic because the pattern that we've seen in that 17 million is that the areas where we have lots of policies that theoretically, you could claim, i.e. the type where if you had it on the premises and there wasn't a lockdown, you could claim for a couple of days cleaning. The numbers of policies are where the lowest amounts of claims are occurring in commercial value, and there are other areas where we have extremely small numbers of policies, but where the claims can be individually larger. I think the largest single claim we've got at the moment is about 2 million pounds and so in that sense the percentages wouldn't help you even if I gave them to you. Sorry about that.

On recession, we are as far as we are able, working very hard to think about 2021. In other words, our feeling is obviously that the principle impact of recession will be on top line and that will primarily earn through in 2021 rather than 2020, although there will be some 2020 impacts, but the 2020 premium impacts will be more around specific customer actions in relation to Covid premium refunds or coverage changes or whatever. And so all of our businesses are working hard both to see to what extent we can combat recessionary impact on volumes in terms of our own sales funnels and sales activities, and so on. And secondly, to understand the extent to which we need to resize our cost base. And so I do expect us to do some of both, but at this stage I think it's premature to be able to quantify either.

Operator

Thank you, our next question comes from the line of James Shuck of Citi. Please go ahead, your line is now open.

James Shuck

Hi there, good morning. Two for me please. Firstly, just on the GVC cover so appreciate their assurances given on business interruption and whatnot. But is there an additional policy wording on the GVC cover or does it just follow the fortunes of the primary insurance company, i.e. yourselves? That's my first question. Secondly, you alluded to some of the benefits from Covid through reduced frequency, et cetera. Will that, would you just allow that to come down to the bottom line if there is a strong benefit in 2020 or we looked to premium rebates and other discounts? Thank you.

Stephen Hester

Thank you very much. The reinsurers basically follow our fortunes and so the only circumstance where they wouldn't, I might be technically wrong, but the only circumstance I'm aware that they wouldn't is if we were to make ex gratia payments which the policy terms didn't require us to do, then they wouldn't be required to follow that. But if the policy terms require us to then they would and similarly if we lost the lawsuit which interprets the policy terms, then obviously the new law would be the applicable thing and therefore we be covered in that sense. On your second point, as I've mentioned, I hope extensively at the beginning of the call earlier in the call, the industry is responding now, never mind in the future, in many, many ways to customers on the premium front, ranging in some cases from rebates, capping price rises, changing coverage, extending coverage, reducing coverage, reducing premiums.

So there is a very wide range of responses being made to customers as their needs change and that's why I said that at the moment the way we're thinking about the frequency benefits, is they provide substantial cushion a) against that and b) against the Covid related specific claims. But it's too early to know whether the cushion will be bigger than needed for those two things or smaller than needed to those two things.

But at the moment it you know it is, it is substantial. And that's good. And that's why we are able to provide customers with changed coverage and relief in different ways.

James Shuck

Yeah, I guess my point is kind if consensus is around the 92 to 93% level for the combined ratio. I appreciate this uncertainty over how Covid frequency impacts do impact, but even if you went with premium rebates later in the year that those who learn through let's say next year, so there's a risk that you end up kind of hosting a much better combined ratio, albeit it's only short term and then I'm just thinking about how the messaging of that might appear for the wider community, I suppose whether you might look might find--

Stephen Hester

My guess is that there will be substantial actuarial debate as to how quickly to release frequency benefits given the uncertainty of claims pattern. So, I agree it would not be desirable either in PR or in fact to have a yo-yo that's avoidable.

James Shuck

Yeah, okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Dom O'Mahoney of Exane BNP Paribas. Please go ahead. The line is now open.

Dom O'Mahoney

Good morning. Hope you're all doing well. Two questions for me if that's alright. First is, I guess thinking about Covid-19 beyond the categories that you mentioned you know one of the topics now in debate in some of the broker records, for instance, in the insurance broker reports is liability exposure for instance, maybe not so relevant to yourself, but US hospitals. Could you give us some sense of your exposure to businesses like care homes, to essential services, to healthcare where you might hypothetically see liability claims? And then secondly just on the top line. And I appreciate the level of uncertainty right now. My understanding is that in Commercial Lines, some business lines have a sort of a mechanical link between economic activity and premium such that if, for instance, the number of employees falls the premium reduces. Could you give us any sense of what proportion of your total premiums is mechanically linked that way and then just the third question on investment returns. Good to hear that you're within the range that you set out at the end of the year for 2020. Should we be inferring that in 2021 it's going to be harder to be in the range? Could you give us some sense of how you feel about 2021 and beyond on investment returns? Thank you.

Stephen Hester

On the liability. I think the truth is it's way too early to know what the pattern of litigation will be and how expensive will be and what the defences will be because we don't have significant presence in the United States. Obviously that helps us a lot. Scandinavia is not known for its litigation, which is half of our business in this regard. Canada is much less exposed and the UK has been traditionally as well.

And clearly in the UK the NHS is not insured privately so we will have some exposure. At the moment I don't think we have a particular concentration, but I'm afraid I can't usefully size it to you. And similarly there are a whole series of business areas where there is mechanical linkage of premium, but I'm afraid I just don't have the data to hand to give you that. Obviously at our half year results when we have more data and we have more chance to disclose things, we'll try and give a more granular analysis of it there.

And in terms of 2021 investment income outlook. Personally I think it may not be negative in the sense that while, first of all, markets may move from where they are now. But secondly, although there's been some declining yields that more than offset by an expansion of spreads and so the highest government bond portfolio in cash will earn less than we thought in 2021. But it may be that our credit portfolio earns more so I think it's at the moment too difficult to know whether that will be net neutral or which side of the dock it will come out on. And also clearly depends whether we take advantage of the broader spreads and how risk cautious we are, and that's something we're debating but haven't done anything about yet.

Dom O'Mahoney

Thank you.

Operator

Thank you, our next question comes from the line of Oliver Steel of Deutsche Bank. Please go ahead, your line is open.

Oliver Steel

Hi, good morning. I've got three questions. The first is you're talking with quite a degree of conviction today. Certainly far more so than the share price has been suggesting. And I'm wondering how that feeds through into your comfort about the dividends, because I think when you suspended the final dividend, you actually said that even at the half year you might not be able to tell the -- sorry about that -- you said in your original statement could you might not even know at the half year stage how the position would lie. Secondly, the Pull-To-Par effect and you say the equity gains have dropped away, but that doesn't change the Pull-To-Par as far as I'm aware, so any update on that would be useful. And then thirdly how you thinking about pricing for SME commercial in the UK going forward, because on the one hand the industry has to cover the cost of claims, but on the other hand I'd have thought this is the segment that is least able to actually be able to pay for increased pricing.

Stephen Hester

Thank you. Charlotte: do you have anything you want to say on Pull-To-Par, and I'll answer the other two?

Charlotte Jones

Yeah, I can cover the Pull-To-Par. I think on-- if you just look at the AFS reserve over the quarter, it fell around 170 million pounds. So that was a combination of the declines in the non-government bond portfolios, the illiquid credit, REITs, preference shares, et cetera. As I said in the in the opening remarks, I think when we look at it, we would think that-- and it's moved back a little bit even since the end of March. But if we were to sort of project it forward, we would think its period, now of unwind is probably around it shortened a bit to five years-ish, but with the approximately two thirds of that unwinding in the next three years, so that's a bit quicker than we were saying at year end, but it clearly depends whether some of that all of that that we saw in the first quarter comes back through market movement. So it still is very dependent on that move, but just the reduction of it has shortened it somewhat.

Stephen Hester

On your other two questions, on SME pricing. I mean obviously we have to let the dust settle and see where everything lies, but it's not obvious to me that SMEs that there will be a vast sum of money paid out to SMEs on Covid claims, because as we said, the majority of SME policies are unlikely to be eligible under their terms, although there may be some exceptions and so looking at it right at the moment it's not obvious to me why SME pricing would need to go up by an unusual amount post crisis, but obviously you know it's kind of early to be sure about that and you're absolutely right. Clearly there will be affordability challenges in a number of different sectors.

In terms of dividend and indeed confidence. As I said at the very beginning, nobody can give you absolute confidence, frankly, about anything as it relates to how the Covid crisis will unfold from here. What its economic effects are and what its effect, therefore, on any one business would be, and so you shouldn't take anything that me or any other business person takes as absolute assurance. We couldn't give it even if we wanted to. And I'm sure there will be uncertainties and twists and turns, so the only thing I would say about our position at RSA is with the passage of time, we have been able to clarify significantly the probabilities, so we can't rule out tail-end events, but we can see much more clearly where the central probabilities lie and they are indeed reassuring as I always thought they would be, but obviously I wasn't didn't have any facts to back that up.

Turning to our dividend decision and outlook. Our dividend decision was never because we thought we were in financial trouble. Our dividend decision was because we didn't want to be at war with regulators and the court of public opinion and I myself saw in the context of the Royal Bank of Scotland, painfully, what it's like to be at war with public opinion in the financial crisis in 2008, and it's not healthy for a company or for any of its stakeholders. And so we wanted to clearly align ourselves both with regulatory wishes and with, if you like, the brunt of public opinion on gestures and so on. And that's why we didn't pay our final dividend.

As I made clear in the statement, I don't regard that as money we are now keeping. I regard that as money that we owe to our shareholders and the only question in my mind is how long will it take us to give it back to our shareholders as we originally intended to.

I'm afraid I don't know the answer to how long it takes us to give it back because I never want to be at war with either public opinion or the regulators, and I don't know how we will assess those things at the half year versus any other period. And of course there can be ups and downs in our own solvency position and so on and so forth so I can say clearly we want to pay dividends to shareholders. We only want to do it if it's prudent to do so, and we will interpret prudency both on a financial measure, and on a broader societal and regulatory measure, which may be frustrating for you, but I think it is in the best long-term interests of our shareholders to do it like that.

Operator

Thank you before we go to the next question, may I remind everyone that if you want to ask a question, please press 01 on your telephone keypad. You can withdraw your questions anytime by pressing 02 to cancel.

We now go to our next question from the line of Abid Hussain of Credit Suisse, please go ahead. Your line is open.

Abid Hussain

Oh, hi morning all, thanks for picking my question. I've got two questions please. Firstly on the Covid claims and the sensitivity around that. I appreciate you giving us some sense but I was wondering if you can give us some order of magnitude of gross claims so that sort of 40 million I think is for the six weeks for the end of April and I understand you can't linearly extrapolate that to the end of the summer if I was running that scenario that the lockdown lasts till the end of summer. So what sort of order of magnitude? Would it be to double 40 million? I just want some sense of roughly where we are. I realise it's not triple. So if anything, any more colour, on that would be helpful. And the second question is on the capital position and the dividends around that. I guess the real question in my mind is you're running at around 160% Solvency II ratio - I appreciate the markets are volatile as the top end of the range – I'm just wondering to what extent would you want to exceed the 160% coverage ratio? And then I guess from that we can make our own judgments, judgments about the dividend.

Stephen Hester

Thank you for your question. Just on the second one. Personally, I liked it when our coverage ratio was around 170. And I explained why I did, in part because of our tax assets that are part of that and so on. On the other hand, we at that stage didn't have a big pension surplus, and I would also take account of a pension surplus as a form of 'hidden capital ratio'. So it's not a mechanical calculation, and I don't think that we would have to get our ratio back to 170 before we started paying dividends. Obviously we would be trying to do some sort of balancing act between restoring capital ratios and keeping our shareholders with us. So I'm afraid I can't give you a mechanical trigger point for the resumption of dividends based off Solvency II, although ultimately we would like to get there. But I don't think that that of itself is a dividend block.

On your question on extrapolation. In a sense, that's really hard because if we don't get a single other claim, then the lockdown can last three more months and it doesn't make any difference, it's still 17 million pounds. Assuming our first 17 million pound estimate is there. So, the real question is how many more people will claim in the future, either because their circumstances have changed in order to give them cause for a claim or because they haven't got round to claiming already and now have got round to it and put in one, even though the events have already happened that have caused the claim. And I do not know the answer to either of those two things. Although I believe we will get more claims and they will fall into both categories. There will be some people who could already claim and haven't got round to it and there will be some people whose circumstances change to give them cause for a claim which they haven't currently seen.

And so that's why, if you like, the time period of lockdown isn't a very sensitive issue on the great majority of the wordings, as we perceive them, it's more the percentage of people that find themselves in a circumstance that they are able to claim and want to claim. And that's been a very, very hard one to understand, because different businesses are affected in very different ways, so my central expectation would be that we wouldn't multiply 17 by significant numbers at all, but we'll find out. And then of course you get reinsurance - in the scenarios where 17 gets multiplied by a significant number - you get big reinsurance cushions to that.

But I suppose, I think it is not realistic for any of us to be able to take certainty seven weeks into a Coronavirus crisis. My only point would be that even with a reasonable range of uncertainty remaining, which there is, our share price is still too cheap.

Abid Hussain

Thank you.

Operator

Thank you, our next question comes from the line of Charlie Beeching of KBW. Please go ahead, your line is now open.

Charlie Beeching

Good morning, thanks for taking my question. You've given us 75 million Canadian dollar costs of policyholder relief measures in Canada. Could you give an overview of what you're doing in other regions and the associated costs there if possible, and then a related question; you point to the expected effect on written premium income as customers reduced coverage, see rate adjustment, and so on, and what would be your best case in terms of the impact here? Thank you.

Stephen Hester

I can't give you a clean number because there's so many apples and oranges around the world, and also different programmes are in different bits of maturity, but our intent would be the claims frequency benefits exceed the premium reduction impacts from, if you like, customer measures. In part because we've got Covid claims to pay for and in part because some of the frequency reduction are natural economic ebbs and flows, which you wouldn't compensate people for you would be compensating people for where there is, if you like, something very specific about the frequency decline that's happened. That makes that appropriate. So in the same way I'm not quantifying the frequency upside, I can't quantify the premium downside, but I do think that the two are naturally related.

Charlie Beeching

Sorry, just another question. Just in terms of the-- so you can't give a figure that's associated to that 75 million Canadian dollars cost in Canada within your other regions?

Stephen Hester

No, I'm afraid I can't.

Charlie Beeching

Okay, thanks.

Operator

Thank you, our next question comes from the line of Barry Cornes of Panmure Gordon. Please go ahead, your line is open.

Barry Cornes

Thank you and I hope everyone is keeping well and safe and most of my questions have been answered, but I've got a couple more, if I may. You mentioned, Steven, in the press release about bad debts. Just wondered if you could give us some sort of feel for how, how much that might be? And secondly, I think one of your competitors recently came up with a capital raise, suggesting that Covid might mean of market moving event, or might be related to that. I just wondered what your view is on that? Or is it too early to say?

Stephen Hester

Thank you, thank you Barrie. Gosh, I'm so sorry. Your very first question is gone out of my mind. Could you repeat your first question?

Barry Cornes

Sure, bad debts. Just wondered if you…

Stephen Hester

Bad debts, yeah, again I think it's really early to know the answer on bad debt because we don't chase people if they're a month overdue in any event. So for the month of April, maybe it's one or two million pounds around the group, but it's kind of a rounding error, but that doesn't mean to say it doesn't become more significant, it just isn't in the early days. In terms of capital raise, I wasn't quite sure whether you were asking about capital raise or about a hard market? I mean, obviously it's likely I don't think I would want to raise capital at our current share price, but I think it is-- it seems on the current evidence that the principle claims impact from Corona is going to occur in the major wholesale markets, Lloyds of London. I saw AXA XL saying I think half a billion or something in their results the other day. So you know Hiscox have got significant London Market related claims that they mentioned and therefore the wholesale markets will probably have the sharpest pricing response to it.

At the moment, if you look at the people like Intact in Canada or our own position in Canada, the Scandinavians have reported and those people who have reported in respective of domestic regional businesses. The impact seems to be less severe and so it would be less clear that there would be hard market coming out of that. So you know, if you were a trader in Lloyd's of London, maybe you'd see some areas where there might be a hard market, but I don't think it would be right to extend that more broadly at this juncture.

Barry Cornes

Okay, thank you. I wasn't suggesting that you should be doing the rights issue, by the way.

Operator

Thank you, our next question comes from the line of Faizan Lakhani of HSBC. Please go ahead. Your line is now open.

Faizan Lakhani

Hi, thank you for taking my question. I hope you guys are all keeping well and safe. I just have one very quick question. On the specialist schemes where you see potentially higher risk of business interruption claims. Can I clarify that you still see this as a just cleaning up the premises and the exposure being two to three days or are there certain businesses where you see exposure through the whole period of a lockdown, be it on small sets of books?

Stephen Hester

There is every kind of flavour. I don't think I can make a single absolute statement of any kind to tell you the truth, because there is such a multiplicity of a) companies in different situations and b) wordings in Commercial insurance that there will be examples in every case. So if we looked at numbers the great number will be very short periods of BI for cleaning, but that, but that's not where I think the value is. The higher value amounts will be ones that where the wording catches you in some other way. Such as to be on cover for a longer period of time.

Faizan Lakhani

Could you give us a broad-brush indication of what percentage of the 17 million comes from ones where you could be exposed to longer periods of lockdown?

Stephen Hester

Well, the 17 million itself, includes our estimate of those cases where there are longer periods of lockdown. So In other words, if the lockdown goes for another month, it doesn't change the 17 million

Faizan Lakhani

And if it goes on for three months or six months?

Stephen Hester

I'm afraid I don't have the percentage. A) I don't think it's a useful percentage to give you and B), I actually don't have it to hand, I'm afraid. I'm sorry.

Faizan Lakhani

Okay, thank you.

Operator

Thank you, our next question comes from the line of Philip Ross of Mediobanca. Please go ahead. Your line is now open.

Philip Ross

Hi good morning, thank you for my question. Phil Ross at Mediobanca here. Just one remaining overarching question on Covid-19 from me, please. I think in the past when you've talked about maybe large claims you've seen, you've made a comment on the fact that maybe you would or wouldn't have underwritten that risk, and that's maybe something that's probably more relevant in the past, and more recently, to say your underwriting has improved significantly, lots of action taken. I just wonder from the kind of work on coronavirus claims from looking at policies, whether there's anything you've seen in there that maybe you wouldn't have underwritten looking back? I'm guessing the answer is no, but just wanted to clarify. Thank you.

Stephen Hester

Well, I think the only observation I'd make is that where we deliberately were exposed, for example Travel or Wedding. I think we think fair dues, we charged a premium and we and we pay the claim. So my concern is more - and we'll only know this when all the dust has settled - whether there are areas where we didn't charge premium for disease coverage or we didn't knowingly do so and we got caught because we haven't been careful enough on the wording or we'd accepted someone else's wording without enough scrutiny.

And there are aspects of Commercial insurance that are cottage industry-like in different brokers, have different wordings in different schemes, have different wordings and I think we, and all insurers, will think that maybe we haven't been quite as disciplined as we should have done in applying the same high standards of clarity on our wordings in every case. So I would guess that it will lead to a greater concentration and making sure that when you grant a wording you thought about it carefully and there's some standardisation and avoiding, if you like, some of the more ambiguous situations which cause heartache, not just for us, but for our for our customers. If the policy is clear that the customer gets paid or they don't get paid, and that's much better than uncertainty on both sides, and indeed that's one of the reasons why I welcome the FCA action to focus on those areas where there are ambiguities and try and get some court judgments in relation to them, which is in the interests of everyone.

Phil Ross

Okay, thank you for that.

Operator

As there are no further questions I'll hand the call back to Stephen for closing comments.

Stephen Hester

Terrific, well thank you very much for spending time with us and I'm conscious it is an unusual moment. I hope it's been helpful as I said no one can tell you what the future will look like, but I feel that RSA is well placed to face the future with some confidence, with some resilience and most importantly to do our job, which is to serve our customers, to serve society, and to serve our shareholders. Thank you for joining us.

Operator

This now concludes our call. Thank you for attending. Participants, you may disconnect your lives.