Q1 2021 Earnings Call

Company Participants

- Brett Shirreffs, Head of Investor Relations
- Kevin Rehnberg, Chief Executive Officer
- Scott Kirk, Chief Financial Officer

Other Participants

- Casey Alexander, Analyst
- Gregory Peters, Analyst
- Robert Farnam, Analyst
- Ron Bobman, Analyst

Presentation

Operator

Good morning and welcome to the Argo Group First Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator instructions) Please note this event is being recorded.

I would now like to turn the conference over to Brett Shirreffs, Head of Investor Relations. Please go ahead.

Brett Shirreffs {BIO 15817618 <GO>}

Thanks and good morning. Welcome to Argo Group's conference call for the first quarter of 2021. After the market closed last night, we issued a press release on our earnings, which is available in the Investor section of our website at www.argogroup.com and was filed with the SEC. Presenting on today's call is Kevin Rehnberg, Chief Executive Officer and Scott Kirk, Chief Financial Officer. As the operator mentioned, this call is being recorded. As a result of this conference call, Argo management may make comments that reflect their intentions, beliefs and expectations for the future. Such forward-looking statements are qualified by the inherent risks and uncertainties surrounding future expectations generally and may materially differ from actual future results involving any one or more of such statements.

Argo Group undertakes no obligation to publicly update forward-looking statements as a result of events or developments subsequent to this call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC. Also note that we will be referring to certain non-GAAP financial information. More information regarding the non-GAAP financial measures are provided in our earnings release.

I will now turn the call over to Kevin Rehnberg, Chief Executive Officer of Argo Group.

Kevin Rehnberg {BIO 3832713 <GO>}

Good morning and thank you for the introduction, Brett. Welcome to everyone on the call. I'm happy to be speaking with you again today just about seven weeks since our Investor update in March. A lot has happened since then including a change in our outlook from A.M. Best. We are pleased that A.M. Best. revised our outlook to stable and we certainly believe that the actions we have taken demonstrate our commitment to producing better returns, becoming more efficient and maintaining a strong balance sheet.

We have the benefit of a few more data points since we last spoke and our experience continues to suggest that the market remained strong and is likely to provide lots of opportunities for specialty carriers like Argo going forward. As you will see from the numbers, our strategic actions and expense focus are beginning to become evident in our underlying combined ratio results. Pricing terms and conditions all have maintained momentum and there are signs that parts of the economy are turning. This environment should allow us to grow in a disciplined manner, while improving our margins.

While our top line was impacted by business exits and re-underwriting actions, our strategic growth areas continue to produce strong growth and margin results. Excluding the impact of Ariel Re, our planned exits in Italy and Malta and our US grocery business, gross premiums were up approximately 6.5%. This is within the growth range that we outlined for the full-year when we provided guidance in March.

Both the US and International segments contributed to this underlying growth picture, although was impacted by our actions to reduce property exposure. I'll spend some more time on this in a few minutes. During our Investor update, I highlighted six business units in the US Argo Pro, Casualty, Construction, Environmental, Inland Marine and Surety. These businesses represented 60% of our US premium base during the first quarter and grew by more than 15% versus the prior year. Each of these six businesses in its experienced positive rate increases during the first quarter, which is a great sign as we already have a track record of underwriting profitability for this group. In the first quarter, the combined ratio of these businesses was comfortably below 90% with minimal catastrophe losses. In International, our underlying growth was primarily related to strong rate increases in the mid-teens on average.

I'm also very pleased that our current accident year ex-cat combined ratio of 93.4% improved by 250 basis points from the prior year quarter. This improvement was a result of both a better current accident year ex-cat loss ratio and a lower expense ratio, which demonstrate solid execution against our priorities. I would note that the result was the lowest current accident year ex-cat combined ratio we have reported in more than four years. This success is a function of our focus on deploying resources and capital to our highest returning businesses, a strategy that we have been very clear about over the last

18 months. We will continue to focus on improving this ratio through disciplined underwriting and appropriate expense management.

One area of focus that we've discussed over the last couple of quarters is reducing volatility in our business, particularly property exposure. The most visible example of this was the sale of Ariel Re in November 2020. Ultimately the sale of Ariel will remove quite a bit of volatility as our remaining exposure runs off. We have also managed to reduce the net exposure of our specialty property insurance business. During the first quarter, we aggressively reduced the size of our US property and contract binding books. In recent quarters, these two business units have contributed a significant portion of our catastrophe losses in the quarter.

Premium for the specialty property business unit in our US segment was down more than 50% and our US Contract Binding business was down more than 25%. We were disappointed with the level of catastrophe losses we experienced in the quarter, but we believe we are taking the right steps to produce better results with less volatility going forward. As we have noted previously, the actions we have taken over the last couple of quarters will take time to play out.

However, we expect to be in a better position before Atlantic hurricane season this year as most US property renewals happen prior to June or July. This includes a meaningful reduction in our remaining exposure to Ariel Re. Based on the actions we have already executed and our plans for the rest of the year, we expect that the same winter storm event were to happen again next year, our losses would be reduced by approximately 50%. As of April 1st, our modeled 1 in 250 year Florida PML was down 12% from year-end 2020 and by July 2nd we expect it to be down 40% to approximately 4% of shareholders' equity as we outlined during our Investor Update. While these actions will continue to impact our top line for the remainder of the year, we believe they are prudent decisions that will lead to better results and returns for our shareholders.

Turning to the environment, rates were broadly consistent with last quarter. We saw a few businesses continue to experience accelerating rate increases, while a few pulled back slightly but remain positive. Overall rates were up more than 10% on average across the group. This is the fourth consecutive quarter of rates being up 10% or more. In the US we saw rate increases of just below 10%, while International was comfortably in the mid teens. Additionally, we have continued to be successful in reducing limits and raising attachment points.

Submission growth was another positive trend we saw in the quarter. Excluding property and contract binding where we are actively pulling back, submissions were up modestly across our US operations, looking closer at some of our focused growth areas such as Argo Pro, Casualty, Inland Marine and Surety all these units experienced strong submission growth in the first quarter that was well above the segment average.

Looking at data from April, submission trends have improved with overall submission growth in double digits excluding property and contract binding. These trends give us confidence that we are offering products and services are insureds and brokers value and will provide us with the opportunity for growth going forward regardless of market conditions. Another strategic focus I've spoken about in the past, our efforts to simplify and modernize Argo's platform.

With this initiative, we aim to enhance our efficiency and ability to scale the business going forward. Central to this is having fully integrated systems what we call the Argo 1 platform, the goal is to be able to harness better data more quickly, so our leadership can make dynamic and real-time, informed decisions to manage their businesses.

We expect this will result in improved customer service and lead to better growth and profitability over time as we are able to retire legacy systems and processes. We have partnered with industry standard companies like Duck Creek and Ampion to create this integrated ecosystem. The Argo 1 platform will provide benefits across our business, including policy, billing and claims administration, workflow management, distribution, submission intake and marketing.

We were initially rolling out these enhancements in the US with Inland Marine as the first business unit to operate on the Argo 1 platform. We expect this deployment will be complete by the year -- by the end of this year 2021 with other business units coming onto the platform over time. This is a multi-year program that we are deploying across most of our US business in the coming years. As this project moves forward, we will continue to provide progress reports and share some of the benefits that we are realizing. So while we are focused on reducing our expense ratio, it's also worth noting we are making meaningful investments into our operations. We are very excited about the strategic investment and expect it will allow us to continue to grow our business and improve efficiency.

I will now turn the call over to Scott to discuss our results in more detail.

Scott Kirk {BIO 18973074 <GO>}

Yeah. Thank you, Kevin and good morning everybody. In the first quarter, we made good progress towards our strategic initiatives and our financial targets. The ex-cat accident year combined ratio for the quarter of 93.4% is a 250 basis point improvement over Q1 2020. Importantly, this been driven by improvements in both the ex-cat accident year loss ratio and the expense ratio. Our operating EPS was $0.44 for the first quarter and annualized operating return on common equity was just under 4%. These improvements have been achieved despite the catastrophe events during the quarter.

Turning to operating results. Gross written premiums declined 8.4% in the first quarter of 2021 largely due to the impact of the sale of Ariel Re and the business exits we have announced over the last few quarters. As Kevin mentioned earlier, excluding these business exits, premiums were up 6% in the quarter.

As we said at the Investor update in March, the low gross written premium going to decrease as a result of the exit businesses, we expected net written and net earned premiums to increase and this is what has occurred during the first quarter with net written premiums and net earned premiums up 11% and 7% respectively compared to the prior year quarter.

While a significant component of change results from the exit of businesses, the remaining increase is driven by business mix, a reduction in some fronted business in the US in addition to reduced third-party capital in our international operations. We reported a loss ratio of 66% in the first quarter of 2021, up from 64.6% in the prior year period. This increase was driven by higher catastrophe losses, which totaled 10 percentage points or just under -- compared with just under 7 percentage points in the prior year quarter. The current accident year ex-cat loss ratio was 55.6% in the first quarter of 2021, which represents a 1.7 point improvement in the prior year quarter. The improvement reflects the impact of rate increases and targeted underwriting actions. Our CAT losses totaled $47 million of which $43 million were related to natural catastrophes and $4 million related to COVID losses. Included in our natural catastrophe losses in the quarter was $7 million related to our remaining exposure from Ariel Re's open years of account. We expect that the majority of our exposure to Ariel Re's US property business will run off around mid-year.

Reserve development was negligible in the first quarter 2021 and marks the fifth quarter in a row net prior year reserve movements have been small. Far move on to talk about expenses I would note that we made a few changes to our reporting, this quarter. First, we are committed to being transparent and this quarter we have provided a split of acquisition in general and administrative expense detail for the Group and by segment. Second, we have created a new line item from non-operating expenses. This will include costs that are not associated with our ongoing insurance operations such as various transaction costs, severance and other strategic personnel related expenses and certain legal costs. We believe these changes will provide you with a better view of underlying trends and performance.

Turning now to the movement and expense, in the first quarter, our expense ratio was 37.8% and was down 80 basis points from the prior year quarter. As you would expect from our reduced levels of ceded premiums in the quarter, acquisition ratio has increased marginally by 60 basis points to 17%. Conversely, the general and administrative ratio has shown a significant improvement and is down 140 basis points to 20.8% in the quarter. We said at the investor update that the improvement in the expense ratio will be driven by a combination of increased net earned premium and reduced expenses and this quarter you were seeing the impact of increased earnings coming through and reducing the expense ratio.

So while expense tolls are largely flat compared to Q1 2020, we are making good progress against reducing future G&A expenses that we should start seeing coming through in the coming quarters. We said this improvement was not going to be linear and we remain committed to the 36% expense ratio target in 2022.

Turning to the segment results. In the US, gross written premiums were up 2.7% compared to the first quarter of 2020, growth was primarily driven by professional and specialty lines. Adjusting for the impact of the benefit of the grocery business and our targeted reductions in property and contract binding, gross written premium were up

10%. Net written premiums in the quarter were also up 9% due to the increases in gross written premiums and some changes in business mix. The US segment reported underwriting income of $11 million a combined ratio of 96.4% in the first quarter of 2021. Included in the combined ratio is just under 7 points or $21 million of catastrophe losses primarily from Winter Storm Uri. Current accident year ex-cat loss ratio was 55.7% which is an improvement of 2.7 points from the prior year quarter.

Improvement in the loss ratio primarily reflects the impact of rate increases earning through the results. The expense ratio of 34.2% was up 2.4 points from the prior quarter. While the general and administrative expense ratio were stable at 18%, the acquisition ratio was up 2.2 points to 16%. That the increase in the acquisition ratio was due to a combination of current year increases driven by some changes in business mix and reduced fronting fees in addition to the prior year benefiting from some additional ceding commissions that were recorded in the first quarter of 2020.

Turning now to our International segment. Gross written premiums were down 24% due to the impact of the sale of Ariel Re and our planned exits in Italy and Malta operations. Excluding these businesses, gross written premiums in the International increased 12% in the first quarter of 2021. Net written premiums were $128 million, increased 16% versus the prior year quarter. As we noted during our Investor Update historically retained only a small portion of the Ariel premium net, with that premium lining off in 2021, you can see that our premium retention ratio increased from 32% in the prior year quarter to 48% in the current quarter. And we expect this ratio to trend higher over the course of the year.

The International segment reported an underwriting loss of $22 million and a combined ratio of 114.4% in the first quarter of 2021. Included in the combined ratio is just under 18 percentage points or $27 million of catastrophe losses. Cat losses included $4 million related to contingency business exposed to COVID. The COVID related cat losses have been trended lower over the last few quarters in line with our expectations and we expect this trend will continue.

Current accident year ex-cat loss ratio was 55.4%, which increased 8 basis points from the prior year quarter. The high loss reflect some increased large loss activity partially offset by the impact of rate increases earning through the results. The expense ratio of 41.4% was down 4.2% from the prior quarter, with improvements in both the acquisition ratio and the G&A expense ratio. The acquisition ratio was 19.1% and was down 3.2 points compared with the first quarter of 2020. At the time of preview spoken about exiting business with higher acquisition costs and the benefit these actions is started to earn toward.

Moving on to investments. We reported investment income of $44.4 million in the quarter, the result included just under $21 million of income from alternative investments, principally mark-to-market gains on our private-equity and hedge fund investments. Although, we are certainly pleased with this result, I would caution that the last three quarters have included elevated returns from these investments. Net investment income excluding alternatives was just under $24 million in the quarter, which was down 28% from the prior year quarter. This decline reflects the derisking actions over the last 12 to 18 months, as well as lower overall yields available in the market. Given what we're seeing in the underwriting environment, we do not expect to be adding risk to the investment portfolio in the near-term.

And finally, let me comment on book value per share. Our book value per share of $48 and $0.23 increased from 47 -- 37 compared to Q1 2020. When compared to Q4 last year, our book value per share including dividends declined 1.7% due to the unrealized mark-to-market losses on our fixed income securities.

Operator, that concludes our prepared remarks and we are now ready to take questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator instructions) The first question comes from Greg Peters with Raymond James. Please go ahead.

Q - Gregory Peters {BIO 3111497 <GO>}

Good morning. I will focus my first question around retention. There -- obviously, there's a lot of moving parts in your top line with the sale of Ariel Re and the other actions that you're taking, but there has been some noise in the marketplace about some other departures that not necessarily planned for within the company. So I was wondering, Kevin, without significantly calling out things like that, if you could just give us an idea of how retention is evolving at the company with key producers and key underwriters. And if you think that everything's intact or where your challenges are?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, good morning, Greg. Thanks. The movement of people happens from time-to-time in the business and we do have some going in and some coming out. And I think it's important to remember that all of our businesses have different stages and in each stage as they grow and develop there's different skill sets that are brought to the party by certain leaders and some of them are needed by us or desired by those folks. So as an example, folks who really enjoyed building businesses, there is a lot of opportunities in the marketplace at the moment, with a lot of the capital looks moved in and some of the new entrants and folks find that attractive.

The good news is we have institutionalized our businesses and we don't have anything that's dependent upon any one individual. We've got strong leadership teams and very good producer relationships to just briefly move to the retention piece with the producers our retentions of renewal retention is actually moved up this year in most businesses are the ones that we're trying to grow in as opposed to what we've seen in previous years, but the opportunities that exist then for individuals as some of these leaders move on is also helpful all the way down the line.

And it's really not that unusual the timing of this is unusual that were several at one time and we got a couple of headlines, but when you look at the six businesses we identified, two of those, we've had leadership changes in, but we had two leadership changes last year in those businesses too. And so again, it's not something that's unusual for a specialty business the timing and the headlines are as I mentioned, but I think we're in great shape for growth going forward and these businesses are performing well with good teams.

Q - Gregory Peters {BIO 3111497 <GO>}

Great, thanks for the answer. Makes sense. Can you -- I'd like to pivot to the expense ratio in the US operations and I'm just looking on that table that you provided and I do appreciate the breakout of acquisition in general and administrative that provide some additional clarity to the moving pieces. And I guess when I look at that, I'm trying to reconcile what you're saying about these improvements in investments with the numbers I'm seeing on the page as it relates just to the US operation. So maybe you can help bridge the gap why the acquisition ratio was up, why the general and administration expense ratio was up in the quarter, I'm sure there is a reasonable isolation to it.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, no, this is the one that really jumps out at everybody because it seems to be counter to what we're -- we've been saying, only if you look at the first quarter of this year in isolation versus the first quarter last year. So what I mean by that is our expense ratio, the way it generally flows through the year, the three previous years all ended up in the mid-32 range. And in the first quarters of those years, we had 34.3, 34.4 then 31.8 last year. So this is back to more of a normalized first quarter for us and it balanced itself out last year, I mean through the balance of the year.

The two things that drove the overall expense ratio the most were a reinsurance transaction timing for one and how it affected the earned premium in that quarter. And the other was related to some IT expenses, there is more detail to it than that, but that's in general, the first part of your question answered.

The second piece on the acquisition cost, that is completely driven by business mix, although was impacted a little bit by the Trident transaction we did, so that transaction drove up the expense ratio a little bit, but the trade-off we thought was a good one for the overall business, but the business mix and some of the things we're driving out or have pulled out of actually had lower expense ratios. And then on the G&A side there, I'll let Scott follow-up on this, but in general it's -- some of it has to do with the size of a taxpayer and that there is -- I don't think we've got an issue from that standpoint in terms of the investments we're making in the rate of growth there.

So overall as we mentioned, it's not going to be linear, but some of the actions we're taking, some of the expenses that come through this year just are -- I don't want to use the word alarming, but they stand out in a way that I expected this question. So Scott, would you like to add anything?

A - Scott Kirk {BIO 18973074 <GO>}

Hi, given I think that's -- it's pretty comprehensive answer. And Greg I guess I just take this back to the investor update and say that look, our expense story was going to be driven by two components here. The first one being increased earnings coming through and you're seeing that importantly in the first quarter. And then the second piece would be about reducing our expense dollars. And I'm certainly getting my feet under the table here and we have actually taken, but we've now able to take some action generally in Q2 here to reduce the level of expenses going forward. And we remain confident that we're going to hit those expense targets that we have out there.

Q - Gregory Peters {BIO 3111497 <GO>}

Understood. Thank you. Thank you for the answer. The other question that I have a lot of them, but I'll just pivot to the last question for net investment income, you called out the alternatives, you called out the lower run rate of investment income ex alternatives. So when I look at the 23.7 that you did in the first quarter of net investment income excluding alternatives is sort of like a good quarterly run rate, give or take?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, I think that's what the message we're trying to get across on the Investor Update and in previous calls is that, it's closer to that number and that because I think folks had been thinking about reaching for something a bit higher, recognizing we still have an element of the other portfolio. So, yeah, that's. Scott, you want to add anything to that?

A - Scott Kirk {BIO 18973074 <GO>}

Yeah, no, I think that's right, Kevin. I would say though with rates moving a little bit, Greg, we hope to see that number maybe come up towards the end of the year a little bit, but it's not going to be all that sensitive to cash flow in there. So look, it's not bad part right now and hopefully we can come in a little bit higher than that towards the end of the year, but yeah, but not that meaningful, I don't want to come across, it's going to be a major shift, but hopefully a little up.

Q - Gregory Peters {BIO 3111497 <GO>}

Okay, thank you for the answers. Just one final recommendation and I don't want -- and I don't want this to be misconstrued because you do provide a lot of information. With all the moving pieces understanding how your reinsurance works and how storms may affect your underwriting income would be helpful. And I know you called out well, though you've reduced your to Florida storms 40% in 4% PML or 4% of shareholders' equity beginning in the Florida storm season, but understanding how your reinsurance works for other events because Florida Hurricanes aren't the only events out there. And again I'm not suggesting you provide the secret sauce in it, but some better clarity at some point might be helpful. And I just thought I'd throw that out there, that's all I have to say.

A - Kevin Rehnberg {BIO 3832713 <GO>}

No, Greg, it's a -- thank you and it's a very valid point that number of folks have been asking about and it's because of the way the business is running off at a one-one timeframe, the 4.1 renewals anything that was 5.1, some that are 7.1. And then how we're moving out of certain businesses, it does move -- it's literally been moving on like a monthly basis, but it's all been down. And I think what we were trying to do with the Florida piece was be instructive to say this is in general how things are moving forward, but the reduction will come back with a specific number at the next call, in terms of what percentage it is down because by that point it will be final, but the actions that are being taken are moving us closer to that number, which is over 25% at the moment. So --

Q - Gregory Peters {BIO 3111497 <GO>}

Got it, thank you for your answers.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, thanks.

Operator

The next question comes from Bob Farnam of Boenning and Scattergood. Please go ahead.

Q - Robert Farnam {BIO 15005467 <GO>}

Yeah, hi there. Just to continue on that theme. So I'm assuming your cat load that you're looking for, you had been kind of 3% to 4% range every year, as the business flows of, as Ariel Re flows of, we do expect that cat load like the cat load for 2022 for example, would that theoretically be lower than it has been?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, good morning Bob, that's a great question and I think you know in theory, yes, but in practice probably not given the fact that the catastrophes that we're facing and everyone is facing are up. And I think when you just look at the costs of rebuilding and things like that that are coming into the overall exposures, while we're reducing exposure, the cat profile and what we're facing doesn't seem to be abating at the moment.

So in order to counter that and except the fact that we are getting rate, but we do need some other things. We'll probably keep it in the range, it's been this year, it's actually because of exposures down, it's actually up in over what it was. So I think we'll continue to assess that and again how much we reposition the book will drive what that number ultimately is and will continue to talk about it, but --

Q - Robert Farnam {BIO 15005467 <GO>}

Understood. Okay, thank you for that. I'm assuming -- so for the COVID losses, I'm assuming events are still being canceled as we speak, I mean it's not everything is back up to running speed yet. So should we expect further losses here in the second quarter and perhaps in the third quarter as everything going to get back up to speed?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, so the approach we took just for everyone's benefit was that we were going to address them each quarter rather than just making assessment, pick a number and try to figure out when it ended. And we did say it would decline every quarter and that's exactly what has happened and it's gotten down to a point now where it's low single-digit figure. This quarter I would expect that the numbers will continue depending on how long the pandemic continues to have some things come in, but bear in mind that there may be some expenses at different times as we go into the future that show up just based on all the litigation that's out there and the fact that some of this stuff may take three to four years to settle given what estimates are coming from people, but I think the majority of our exposure was seen last year and I think the numbers play that out when you look at what we ended up with last year versus what you're seeing here.

Q - Robert Farnam {BIO 15005467 <GO>}

I guess we're getting to the point now where it's been probably long enough since the beginning of COVID that you start changing the policy language in some of these, in some of your policies that perhaps would reduce the exposure as well.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, we really had -- that was not something that we had a big problem with across the board, right? I mean, we had the few circumstances where we had specific coverage grants, but those have finite limits on. And so I think there is -- it wasn't like we -- that situation in the UK, right? We had a small exposure there, it was very small and it was a dealt within a quarter that you've seen the numbers for previously. It wasn't like we had products that were out there that add a lot of exposure that way.

So we just continue to move along and we haven't seen new areas of development there may be some, but our main exposure really was on the contingency side and then that specific property side. And as I had mentioned a year ago, we had a very specific environmental product that covered virus clean up that we had in that first quarter there and then some other property exposures that were across the board. We're expecting it to be modest as we go forward.

Q - Robert Farnam {BIO 15005467 <GO>}

Heard it. Okay. And last question from me, so in the past we've been kind of guided to use maybe a 15% effective tax rate going forward, is that still the case with all the moving parts and we're getting rid of Ariel Re. I'm just kind of curious if that effective tax rate has changed to where our expectations the effective tax rate will change going forward?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, I'm going to pass this one right to Scott because he is in the middle.

A - Scott Kirk {BIO 18973074 <GO>}

I know you might do that, Kevin, hey look, Bob, it's a good question and there are a lot of moving parts here because as you know, your effective tax rate is always going to be driven by the emergence of profits and way the emergence of that profits come from right. But for now I think where we're sticking with that 15% of their estimate and look if things change and profit shifts around in the group and we'll definitely come back and let you know.

Q - Robert Farnam {BIO 15005467 <GO>}

Okay, very good. Thanks.

Operator

The next question comes from Casey Alexander with Compass Point. Please go ahead.

Q - Casey Alexander {BIO 1521572 <GO>}

Hi, good morning, Kevin. Good morning, Scott.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Good morning, Casey

Q - Casey Alexander {BIO 1521572 <GO>}

I guess I only one chance to ask this question because the shift in business mix here has been pretty extraordinarily complex with some lines completely stopped, some lines where you stopped the clock, but there is still things earning in the growth on one side. So how do you see premiums earning in relative to what you earned in the first quarter over the -- over the rest of the year because it is a pretty complex mix of how you're earned premiums are coming into the income statement?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah. So there is a couple of things that play here that factor and as well, some of the things we are out of no longer require reinsurance and we had programs that may have reached across the group that we're reassessing and as we've. So there is a reinsurance element of this as well. But remember, the largest group that was -- if it was the largest, but we went through all the premium last year on a gross basis, but on a net basis, it was a lot lower, right?

And as we go through the year, the growth we're seeing in the larger areas absent in the US will take care of whatever issues we are dealing with and moving out of in the US, that's the first piece. On the International side, on the top line because of the impact of Ariel, there is and some re-underwriting. It is more of an issue there with Italy and Malta. And on the earned premium side, I don't remember the exact number, Scott, do you as to what that may be?

A - Scott Kirk {BIO 18973074 <GO>}

Not off the top my head, Kevin.

A - Kevin Rehnberg {BIO 3832713 <GO>}

So we're going to have to come back to you on that in terms of what the expectation is, but it's all factored into the guidance we gave. So it's and it's just tough to figure out because it will sort itself sort of halfway through the year, right, because that's where things stop. So --

Q - Casey Alexander {BIO 1521572 <GO>}

Well, if you think it's tough for year, you ought to try it from the outside.

A - Scott Kirk {BIO 18973074 <GO>}

Casey, it's Scott here, might be I can help a little bit with that. At the Investor Day, we did go back and try to give you a bit of a low both on how premium flowed through on an annual basis well, as the earnings split by the US and international. I thought that might be a helpful place for you to go and have a look to see if that plays in a little in terms of what you're looking for.

Q - Casey Alexander {BIO 1521572 <GO>}

Okay. Secondly on the net investment income, I know your base is 23 and change, but I mean are you suggesting that we just modelled no earnings for the alternative side, I mean it would seem to me that there would be some expectation that over time that would add to that $23 million base.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah. That is absolutely correct. But I think I answered the question as asked relative to what he was asking on that, that part of the portfolio and I did mention that, that we would see -- continue to see some income from the alternative side.

Q - Casey Alexander {BIO 1521572 <GO>}

Okay, great. All right. That's it. Thank you for taking my questions. I appreciate it.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, thanks.

Operator

(Operator instructions) The next question comes from Ron Bobman with Capital Returns. Please go ahead.

Q - Ron Bobman

Hi, thanks again for the call. (multiple speakers) Hey, good morning everybody. I had a sort of a core business question and sort of app I guess sort of counts. I think it's going back, I don't know, it's probably, easily year maybe as much as three years sort of the E&S market broadly and I'm talking about your core E&S business has enjoyed a real pick up in sort of shots at the basket, sort of submissions were up across the board for everyone in that segment. And I imagine in the earliest days that was really a function of sort of competitive behavior whether it was Lloyd's or other E&S companies sort of taking a different view towards underwriting and presenting an opportunity, but off late from what I understand, the E&S stamping office measures are also showing a continued pick up in submissions and I guess ratings I guess, is it now really much more a function of the economy driving those volumes up further and less so about sort of competitive underwriters retrenching or taking action that's prompting a pickup in opportunities?

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, look, Ron, that is a great question and I think I'm just looking at our submissions here for those areas and we were excluding contract and property because of our actions. See two things happen one is things flow into the E&S market or they flow into the regular market. And then for producers respond to our appetite, so we've got to look in each instance like wow we've got one that's up 70%, okay, but we really weren't doing much of that last year, right? So and there's others that are down 60%, but we're trying to get out of that business.

So when you look across the board in the quarter, we were up in low single digits across the board, but in March it was a bit higher than that, but in April, it's 16% across the board, right, excluding the two areas that we're really trying to get out of. And it's so the double-digit growth in the submission change is so high, it has to be the economy, right, because it can't just be the insurance market, a lot of these businesses we were in, we were open. So I would say based on that the economy is helping there as well.

Q - Ron Bobman

Right. And presumably your CFO isn't allowing you to pay the intermediaries anymore, so that is a driver.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, it's interesting, they -- the market sort of dictates what that amount is but -- and it does vary by line and there are multiple sources, so we're cognizant of all that, but the business flow in April is really encouraging.

Q - Ron Bobman

Yeah, for sure, great to hear. Thanks for the help.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Yeah, thanks.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Kevin J. Rehnberg for any closing remarks.

A - Kevin Rehnberg {BIO 3832713 <GO>}

Thank you. I appreciate everyone's interest, the involvement and your support you've given the company, so, thanks to our shareholders, to our Wall Street community following us, to our employees and producers and anyone else supporting us. So, I hope everyone has a good day, look forward to catching up soon. Thanks.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.