FINAL

Q2 2020 Earnings Call

Company Participants

- Brett Shirreffs, Head of Investor Relations
- Jay S. Bullock, Executive Vice President and Chief Financial Officer
- Kevin J. Rehnberg, Chief Executive Officer

Other Participants

- Greg Peters, Analyst
- Jeff Schmitt, Analyst

Presentation

Operator

Good morning, and welcome to Argo Group 2020 Second Quarter Earnings Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be a opportunity to ask questions. Please note that this event is being recorded.

Now, I'd like to turn the conference over to Mr. 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 second quarter of 2020. After the market closed last night, we issued a press release on our earnings, which is available in the Investors section of our website at www.argolimited.com. Presenting on today's call is Kevin Rehnberg, Chief Executive Officer; and Jay Bullock, 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.

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

Kevin J. Rehnberg {BIO 3832713 <GO>}

Good morning, and thank you for the introduction, Brett. Welcome to everyone on the call. We made some really important strides as an organization this quarter and our results demonstrate that our initiatives are leading to stronger underlying underwriting results. I'm very proud of how our team has performed during the global pandemic and reacted to the challenges of working remotely for an extended period of time and continued to service our customers and producers. While we have all adjusted to these new working conditions, we still have managed to make good progress on our strategic objectives and are benefiting from very strong underwriting environment. Our financial results were impacted by COVID-19 again in the quarter, while the catastrophe losses we recorded relating to COVID-19 were down from the first quarter and a manageable level for us, it did push us to a slight underwriting loss for the quarter. This shouldn't take away from the strong underlying loss ratio improvement across the Group and the best quarter our US operations has reported in history.

These improvements are a better indication of where we are taking the company strategically and the results we are capable of achieving. Additionally, our net investment income reflected the lag in reporting of the financial market volatility in the March 2020 quarter on our private equity and hedge fund holdings. This caused us to report only modest investment income during the quarter, but our overall portfolio has more than recovered from losses in the first quarter and is now at a positive total return for the year.

Looking through the volatility related to COVID-19 related catastrophe losses and reported alternative investment performance, I think there were a lot of positive signs that were evident in our results. We're able to achieve positive growth in the quarter, including almost 6% growth in the US and a flat top-line on International. This demonstrates not only the strong rate increases we achieved, but also our strong customer relationships and product innovation. In fact, some of our most economically sensitive businesses such as Construction and Surety continued to lead the way for us in the US and we're able to absorb the impact of the pandemic to report an excellent quarter.

It also shows that we're not overly dependent on any single business line or product. Our strategy to operate discrete business units catering to a specific industry specialty or niche provides balance during periods of disruption like today. In the second quarter, submissions were up in our E&S lines and some of our focused growth areas such as Argo Pro. Other business units were down slightly, but we continued to report positive submission growth in the quarter and we have started to see a slight uptick across the board in July. In International, the top-line premium has been and will continue to be constrained by profitability improvement actions.

The market continues to present opportunities for Argo and we are well positioned to take advantage. Market conditions have continued to improve during the second quarter and we experienced high single-digit rate increases on average in the US and mid-teens rate increases on average in International. We have seen the strongest pricing improvements in property, professional liability and excess casualty across the Group.

Property was up 13%, but in several places such as Bermuda, it was up in the mid-20s, and across the board, it's been coupled with reductions in exposures.

Professional liability rates in the US and Bermuda increased more than 20%, and excess casualty pricing was generally above 40% with Bermuda excess over 60%. The economic backdrop and the change in risk appetite across the market suggest that these attractive underwriting conditions should continue well into next year. Argo as well as much of the industry has started to feel the earnings impact of the continued drop in interest rates. This impact will continue as portfolios are reinvested in lower new money yields. The incremental benefit of adding risk to our investment portfolio is nominal, so we will continue our focus on improving operating margins and driving underwriting income to the bottom-line.

Turning back to our results, our combined ratio was 100.3% for the quarter. This reflects the balance of our strongest quarter ever in the US offset by underwriting losses in International that were driven by additional losses related to COVID-19 and other catastrophes. In the US, our combined ratio was 88.5%. This is really an exceptional result during a period of significant economic pressure and elevated catastrophe losses. Both the loss and expense ratio showed improvement from the prior year quarter, which at 89.7% was a tough comparison. I'm particularly excited that we are able to achieve strong rate increases on top of an already attractive margin and returns in our US business. This is an area where we will look to deploy more resources and capital due to the strong environment.

International reported a combined ratio of 120.4%. The result included more than 17 points of catastrophe losses and an elevated expense ratio that Jay will walk through in more detail. However, recent rate increases and reunderwriting actions led to a solid improvement in the underlying loss ratio. As we have participated on the last earnings call, our COVID-19 related CAT losses were less than we experienced in the first quarter. The majority of our exposure to the events in the second quarter continues to be focused on event cancellation coverage in our International business.

Health precautions and business impacts around the globe remain a fluid situation, but we are currently expecting the trend of smaller losses related to the pandemic to continue for the balance of the year. Overall, I think there are some very positive signs coming from our underwriting results in the quarter. Our combined ratio in the second quarter included $17 million or 4.3 [ph] loss ratio points of catastrophes related to COVID-19. Adjusting for these losses, our year-to-date combined ratio remains at the low-end of our 2020 combined ratio guidance of 96% to 98% that we provided in February. We have initiatives in place that are designed to continue to improve our Group-wide margins. Many of these actions are already underway, but will take time to fully execute, a process which has been slowed a bit by the pandemic.

Businesses representing more than $500 million of gross premium are currently under review for actions that include additional reunderwriting to improve margins, perhaps finding a partner to acquire certain business units or in the absence of that alternative simply shutting a business down in some cases. This review is concentrated in areas where we do not view there to be attractive long-term growth or return opportunities for us. We also have a sharp focus on reducing costs through these initiatives.

Our objective is to drive the kind of efficiency we achieved in our US business, where we saw premium per employee increase approximately 65% from $1.6 million to more than $2.6 million over a seven-year period. During this time, we've invested in technology initiatives to help us produce business more efficiently. These investments are paying off, demonstrated by roughly 200 basis point improvement in our expense ratio and double-digit premium growth in the US since 2013.

As we speak today, the business units and functional areas are doing extensive line by line review of cost. Much of the easy work has been done, such as reducing marketing expenses or exiting certain high-cost businesses, including our operations in Asia and Latin America. That said, much of the costs that needs to be dealt with this related to unproductive or less productive parts of the platform. I refer back to my comment from a moment ago about our intent to address those businesses. We expect this work will be complete in the next 90 days at which time we'll have more confidence in communicating the progress we're making on expenses and expect in 2021 and beyond.

These are similar to actions that were taken in the US segment after I joined Argo in 2013 to lead the US business. Certain businesses we had in the US needed to be restructured or sold, costs were rationalized to a more sustainable level, resources were deployed to businesses with the best long-term return opportunities and our investments in technology and underwriting tools improved our service and success. If you look back at our financials for the US operations for the last seven years, you will see that this strategy has led to strong and attractive margins, and that's why we plan to execute for the entire organization going forward. We'll expect to have additional details to share with you as we make progress on this strategy.

I would like to take a moment to discuss some of the recent announcements related to leadership changes. Over the past several months, we have worked to design a refreshed organizational structure. This more appropriately focused on Argo's go-forward strategy of being a US-focused specialty company. These changes covered underwriting, claims, operations and legal. Argo is an excellent talent pool of individuals that have joined the company in recent years, and in many cases, we've been able to promote from within. Last month, we also announced that we have started a search for Jay Bullock's successor as CFO at Argo. Jay has been a great asset to Argo over the last 12 years and will continue to lead our finance department until a successor has joined ensuring a smooth transition. Overall, we're encouraged by -- we are encouraged by what we are seeing in the market and progress we are making at Argo. Our underlying performance in the quarter was solid, particularly in the US and in line with the expectations we set out earlier in the year.

As a specialty carrier focused on US risks, we are well positioned to take advantage of increasingly attractive underwriting opportunities. We have freed up additional capital to deploy to those businesses, business units generating the strongest returns through derisking our investment portfolio over the last nine months and our recent issuance of preferred stock. Both of these actions have provided additional rating agency and regulatory capital to write more selective business volume as long as the pricing environment retain -- remains attractive.

Our long-term strategy and focus on delivering value for all stakeholders is unchanged. While we continue to focus on applying a theme of simplify, reduce and eliminate across all operations, we're really excited about the opportunities in the marketplace today. With our current platform technology and capital resources, we see significant growth opportunities ahead for Argo.

I will now turn the call over to Jay to go through our results in more detail.

Jay S. Bullock {BIO 3644311 <GO>}

Thanks, Kevin. I'll spend the next few minutes sharing some more detail on our results and then we'll take your questions. For the second quarter of 2020, Argo reported a small net loss of $6.4 million or $0.18 per share and a smaller operating loss of $4.7 million or $0.14 per share. The primary drivers of the result in the period were elevated catastrophe losses, including losses stemming from COVID-19 and negative marks on our private equity and hedge fund portfolio that are reported on a lag here on [ph] net investment income.

Despite the impact of the unusual losses and economic challenges in the quarter, there were some real positives underlying -- there were some real positive underlying fundamentals within our results. First, on the top-line. Growth results were in line with what we discussed on our call last quarter. There were some balancing forces of very strong rate increases across the organization being partially offset by lower insured exposures due to issues faced in the areas, many areas of the global economy and certain underwriting and product refinements in our International segment.

In the second quarter, US gross premiums were up almost 6%. Our growth was driven by a continuation of positive rate trends and strategic growth initiatives of certain business lines. The strongest growth was in professional liability, surety and our funding business unit. Net written and earned premium growth during the quarter in the US came in at 2.8% and 6.2% respectively. On the International side, our gross premiums year-over-year were approximately flat in the second quarter of 2020. This reflects a balance of rate increases that continue to accelerate offset by certain profitability initiatives, including exiting business lines and terminating binding authority relationships.

Overall, we feel really good -- very good about the top-line in the quarter given the macro backdrop and it aligns closely with our strategic objective to deploy capital to our best performing units. As Kevin mentioned, we saw strong rate increases in both our US and International businesses during the second quarter. The average rate increase was above 10% in the quarter across the company. This is an acceleration of the rate trend we've experienced over the past few quarters and the market clearly has the tailwinds for this momentum to continue.

The rate environment will certainly help us improving underwriting margins remain our number one focus. Our combined ratio in the second quarter was 100.3% compared to 103.4% in the prior year quarter. The 2020 result included 6.7 points of catastrophe losses, which was primarily due to 4.3 points related to COVID-19. The remainder was due to regional storms in the US and UK and to a small provision for losses stemming from civil unrest in the US. Similar to last quarter, most of our catastrophe losses related to COVID-19 were the results of cancellation exposures within our contingency business.

The US combined ratio was an exceptional 88.5% in the second quarter. The strong level of profitability combined with growth in our premium base add to our strongest US underwriting income ever this quarter. The International combined ratio was 120.4% and includes the majority of our catastrophe losses in the quarter. Reserves were again stable with just $1.8 million or 0.4 points of unfavorable development. Some small positives and negatives across our business netted out to having little impact on our underwriting results. We're very pleased that for the second quarter in a row, reserve movement has been modest. As we noted on our last call, we worked with a third-party actuarial firm to get an independent review of our reserve adequacy, we received that report in the first quarter.

The results of this indepth review and what we've seen over the past two quarters gives us comfort around our current reserve position. The current accident year loss ratio excluding catastrophes improved 3.4 points from 59.3% to 55.9% in the 2020 second quarter. This was a very nice improvement in both US and International segments relative to the prior year quarter, as well as full-year 2019 results. This demonstrates our strong focus on profitability and the benefit of rate increases we've achieved over the last few quarters beginning to earn through our results.

Also as many in the industry have noted, the lockdown and related slowdown in economic activity has resulted in lower claim frequencies. We have also experienced this in our property and liability lines. Our claim counts, particularly in the US were down significantly. A portion of this apparent benefit is reflected in the result and can be seen most pronounced in the US current accident year CAT loss ratio -- non-CAT loss ratio for the quarter. Offsetting this somewhat in the current accident year result was the large loss experienced in our International units for marine, liability and our power outage business during the quarter. All-in, our loss ratio was 63% in the second quarter down three points from 66% in the prior year quarter, which reflects what is in our view a much better underlying profitability story that we're frankly very excited about.

Our expense ratio in the quarter while still some distance from our objectives showed modest improvement at 37.3%. This was down slightly from the prior year quarter, but down from 38.6% in the first quarter of the year. Expense ratio in the US has shown nice progress coming in at 31.7% for the quarter and year-to-date period. This is a pretty competitive expense base, but we will continue to push on costs where we can. To contracts, the International expense ratio was 43.7% in the quarter compared to just under 39% last year. As I explained on our last call, the expense ratio reflects Argo supporting more of the capital in our Lloyd's business in 2020.

And with this, we assume a higher share of the expense base. Pressure has come down a bit, as the International expense ratio was down about 200 basis points sequentially from the first quarter of 2020. In addition, as mentioned previously, we are seeing acquisition costs drop materially and business being currently written. The benefit of this large component of the International expense ratio will be evident in subsequent quarters as that business is earned. All said, we are highly focused on expense pressures in International as this is not a sustainable level.

Turning to investments. We had a nice recovery in our investment portfolio during the quarter, and we have returned to a materially positive return for the year. This drove most of our increase in book value in the quarter. Included in this were negative marks on our private equity and hedge fund investments. Our private equity holdings are reported on a one-quarter lag and our hedge fund investments are reported on a one-month lag. These assets in the quarter reflected the peak volatility that we're seeing in the financial markets earlier this year.

As a result, our net investment income was $1.5 million for the quarter, including a loss of $23.4 million on alternatives. As markets have recovered significantly and are generally now positive on a year-to-date basis, we would expect a more normal result from our private equity and hedge fund portfolio next quarter. On the core portfolio, we like much of the industry are feeling the pressure of significantly lower interest rates. Investment income excluding alternatives was down approximately 25% from the prior year quarter to $24.9 million. Late last year, we made the decision to derisk the portfolio. This has accelerated some of the income pressure, but it's also freed up some additional capital to deploy into our underwriting operations. At this point in time, given the current market dynamics, it doesn't feel like adding risk to the portfolio, which would only marginally enhance expected returns as a prudent action.

Following the close of the quarter, we successfully executed our first preferred stock offering. This additional capital will primarily be used to refinance our existing term loan of $125 million. But there are additional capital benefits of this transaction, as our term loan received no regulatory or rating agency capital treatment. Replacing the term loan with a security that receives favorable treatment from regulators and rating agencies will allow us to support additional growth.

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

Questions And Answers

Operator

We'll now begin the question-and-answer session. (Operator Instructions) First question comes from Greg Peters of Raymond James. Please go ahead.

Q - Greg Peters {BIO 3111497 <GO>}

Good morning. I have -- I have a couple of questions for you guys. The first would be around the reserves, specifically in the International. You said that you did a exhaustive review, had an independent person -- company come in. Is -- are you going to go through that same process say in the third quarter of this year, so there will be another review? And I guess ultimately, one of the reasons why your stocks trading it -- where it is, is just this lingering concern that you're going to have another reserve charge from International come through in the third or fourth quarter. So any color you have around how the claims are settling out, what the case -- how the case reserves are holding up et cetera would be helpful?

A - Jay S. Bullock {BIO 3644311 <GO>}

Sure. I'll take that one, Greg. I wouldn't anticipate that we would do an external review more than once in a year. We have mentioned that we will be accessing probably the services of the same firm in subsequent years. I would say that the activity that we saw in the first quarter and the second quarter, I mean, we took a lot of action last year, right, each quarter, and I know that's what you're referring to, and I appreciate that. But the activity that we saw in the first quarter and the second quarter of this year was in line with expectations. And so both the incurred and the settlement and where those case reserves have been posted have all been within expectations. So I guess I refer back to the comment that I made in my remarks. We've had two quarters where basically we didn't have any material movement in either the International or the US segment. We've got a third-party from a very reputable firm study, it gives us some comfort as to where we are.

Q - Greg Peters {BIO 3111497 <GO>}

One of the things that most everyone's reported is that there has been a reduction in notice -- first notice of loss, new claims, et cetera. Do you think -- do you think through -- as a result of COVID and the economic shutdown, do you believe that that's also affected some of the issues that were in your International business, the reserves, so that maybe what you've reported seen in the first two quarters of this year may have masked maybe some underlying challenges that still may be there?

A - Jay S. Bullock {BIO 3644311 <GO>}

Well, I certainly wouldn't think that would have had an impact on the first quarter. I don't think it's really, really got started that early. And the claims level, the activity level that we've seen a reduction in claims was most pronounced in the US. We didn't see it nearly as much in International. So I don't think that we were influenced. I don't think that the results are influenced by that. And I think that what we're seeing coming through -- there tends to be a lag in many of our International businesses, especially the Lloyd's business and the reporting of claims. It's just the nature of getting information through that system. So we haven't seen anything. We haven't seen a drop-off, but neither have we seen anything that was outside of expectations.

Q - Greg Peters {BIO 3111497 <GO>}

Got it.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

I would add, Greg, it's Kevin, I would add to that, that some of the prior year development that you saw in last year was around areas that we were significantly reunderwriting as well, and some of those actions have been going on, in some instances, back to the first quarter of last year and subsequently over the last four quarters to six quarters. So the issue you're talking about is more related to prior year than it is to the current year since the underwriting actions have been aided by the market changes.

Q - Greg Peters {BIO 3111497 <GO>}

Okay. I'd like to pivot and I know there has been some press reports regarding businesses that are up for sale. I think it was rumored that -- or I saw a report that Ariel Re was up -- is potentially up for sale, and then in your comments, you talked about businesses under strategic review. Obviously, you're probably not going to give us much detail on what's going on, but certainly, you can give us an idea about the amount of capital that is backing these businesses that are quote-unquote, struggling to generate the acceptable return, so we can size up the -- from both the premium and a capital perspective, what chunk of the business is in question here?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes, I think first of all, we don't comment on rumors, so I'm not going to do that like you anticipated. The second thing I would say is that until anything is done, we don't know where things are going. So there is -- there have been -- I'm going to use the US as an example, where we have over the course of the last seven years or 10 years just continued to look at what's in there and get out of businesses that -- or move capital away from them if they haven't been performing or they don't have longer-term prospects. And it could be that there is a situation where if the business is better with another partner than it is with us and Trident was the most recent example of that.

So, and we continue to have US businesses that we're looking at. We continue to have International business we're looking at. But until the action is taken and we don't know what that action is, if it's a renewal rights deal, the capital is still going to be there for a while, while we're running off the business, like it happened in the US with the Allied Med book, right.

In places like Asia-Pacific or Latin America, the books were relatively small and that didn't have much associated with it. So in each instance, we can give you what that will be and we can probably do a better job of trying to identify what has moved around a bit or where things have freed up when we come back to you next quarter. But at this point, it'll be premature to say we've got X amount of capital in this business and they are under review because if the marketplace turns right, we can get the rate and we can get the book fixed, we'll keep trading.

Q - Greg Peters {BIO 3111497 <GO>}

Well, that's a good last point to make, Kevin, because it would seem that except for workers' comp and maybe a couple of other lines, you're probably in the best pricing environment that we've had in the last 15-plus years. So exiting businesses right now may not be a good long-term strategic decision, but again you're on the ground, we're just sitting here in the cheap seats?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes, I mean, do you want to keep -- do you have more question or you want me to respond to that?

Q - Greg Peters {BIO 3111497 <GO>}

Well, go for it, you can respond to it, please?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes, okay. Don't forget we are a specialty company and we write sub-segments of businesses. So the fact that rates are up in a particular area maybe true and it may be great, but that's not the only thing that drives the environment. There is the external exposures. There is the court precedents that are set. There is the capital requirements that are needed for the businesses and the relative returns that are available in other businesses that we may have. So when you've got the number of discrete business units we have, the value of it is that you're not dependent on any one of them, right.

So someone might say, well, hey, rates are going up like this and, in our view that may not be enough rate or there may be other circumstances that have changed the -- this the playing field significantly. So that rates just not the only thing that we're looking at. So I understand that there is a view that it may not be the best time to get out when the rates are going up, but there is also more interest in people who may be willing to partner with you in a time like that.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. I'm sure there's other questioners. So I'm going to conclude with one last question. Jay, in your comment, you said obviously the investment income was affected by alternatives in the second quarter that reflected the March 31st marks, and you said, I don't know if it's a direct quote, but it's almost direct, a not -- more normalized result in private equity going forward. Can you please help define what that means?

A - Jay S. Bullock {BIO 3644311 <GO>}

Sure. I mean, if you go back over the last couple of years when we tried to -- several years ago almost probably it was five years or six years ago, when we like many in the industry said okay, wait, alternatives are generating income, we're going to include that. We tried to provide some sort of back of the envelope math that kind of led one to the conclusion that $3 million to $6 million per quarter out of that portfolio was not unreasonable. And that's kind of what I consider to be a more normal result coming out of that. So I don't think that -- if you think about the two components of it, one is a hedge fund component which has a monthly lag and the other is private equity.

I think you'll see a rebound in the hedge fund and I think private equity will do fine. I don't expect that, that managers of private equity would necessarily mark up their portfolios.

They're all private -- they're almost all private positions. But I do think that you'll get back to a more normal result, which often includes in the private equity arena dispositions that happened during a quarter. We've got some diversification of that portfolio, so, I mean, multiple managers, so it's not uncommon to have a disposition that, that generates a positive result. So that's what I mean by more normal result.

Q - Greg Peters {BIO 3111497 <GO>}

That's exactly what I was looking for. Thank you. Thank you for the answers.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Thanks, Greg.

Operator

(Operator Instructions) Our next question comes from Jeff Schmitt of William Blair. Please go ahead.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi guys, good morning. Looking at the US, the accident year loss ratio ex-CAT obviously was really good under 55%, it sounds like that was a record. And are you surprised to see that much of a drop turn 90 [ph] basis points just given the uncertainty that's still out there, social inflation is still out there. How much of that was driven by, I guess, just kind of favorable frequency from the pandemic, which maybe we could kind of think of that as more non-recurring or what was the drivers there?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes, I think -- thanks, Jeff, for the question, the -- and good morning. The -- it was a combination of the lower frequency and mostly driven by that, but don't forget we're getting rate and reunderwriting as we go along. So I would say, it's a combination of all of those things, but the largest of the three drivers in there -- in that would be the drop in frequency. Jay, if you want to expand on that, would be helpful.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay.

A - Jay S. Bullock {BIO 3644311 <GO>}

No, and -- I mean, I -- and think it's really just a reflection of what happened during the 90-day period.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes.

A - Jay S. Bullock {BIO 3644311 <GO>}

And we've not made and we -- which we tried to take a somewhat conservative approach to what the data was telling us and we didn't extrapolate on what that data could be in future such that if it was a one-time item, then you'll see an uptick in the third quarter, but sitting where I'm today, I don't think I'm in a position to make predictions about what that frequency rate.

Q - Jeff Schmitt {BIO 19747235 <GO>}

I believe you'd mentioned the average rate increases in the US were 10%, others had mentioned, they're seeing loss costs increasing at kind of 4%, I mean, is that in line with kind of what you're seeing?

A - Jay S. Bullock {BIO 3644311 <GO>}

Just, I'll let answer -- Kevin, I'll let you jump in, but I made the comment that the 10% was across the entire Group. So it's every business across the group, 10%, so US and International. But Kevin, if you want to comment on loss costs?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Well, yes, the US is just slightly under 10% is what -- where we are in, and it really varies by class. And again the loss costs vary by class too. So if you averaged it out, our average may not be like somebody else's, but we're not seeing an acceleration other than the areas that we've talked about previously in social inflation, but those have been moderated through reduction in exposures largely, so limit maintenance, if you will, as well as rate and some terms and attachment points. So, but the underlying loss costs because of the drop in the claim activity is consistent with what the rest of the world is seeing.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

And I would also add to that the rates we're seeing on lines are right in the bands and ranges that you're hearing about. So when we talk about professional liability, we're -- when you go to D&O specifically, it's twice what we're getting across the board in professional liability, because that's what's happening and what's really driving that segment of the market.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And then just one last one on the investment income, the non-alternative piece was down quite a bit to $25 million, and you talked about some of the portfolio derisking. Could you maybe explain that? I'm just trying to understand how much of that drop was from that versus the yield pressures?

A - Jay S. Bullock {BIO 3644311 <GO>}

Well, so there's two -- there's really, there was a couple of things that happened, right, in the fourth quarter of last year, pretty much coincident with when Kevin stepped into the role, we were looking at the environment, pre-everything that's going on right now, right, and thinking well, this is a great underwriting environment and we really want to put our efforts towards the US specialty business. And one way to have more capital to do that was just to take some of the risk out of the investment portfolio, which as well consumes capital.

So we, I mean, we sold almost $300 million out of the equity portfolio and held that in cash through the beginning of the year. And then we're perhaps even a bit more cautious as most people were in the March and April timeframe trying to understand how the economy was going to -- we now feel pretty reasonably comfortable about that, how the economy was going to react and what impact that might have on claims and costs and so on and so forth.

At the same time as we all know, especially on cash or really short-term investments anything inside of the year, the rates plummeted down to effectively nothing. And if you go back a few years ago, three years ago when there was a period of time when the short end of this -- of the curve came up with that, but before that any cash that you held, you basically were getting nothing on it. So kind of an unintended consequence of having that greater amount of liquidity, at the same time that the really short end of the curve goes flat, that's had a big impact. I think we'll -- I think as we're understanding how the economic environment is affecting our platform, we'll start to reinvest some of that, but even the reinvestment is going to be -- have a modest benefit given the fact that all rates are much lower. So that's kind of the explanation of what I think is happening.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay, got it. Thanks for the answers.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Kevin Rehnberg. Please go ahead. One moment please. We just have a question now coming in from Greg Peters. Please go ahead.

Q - Greg Peters {BIO 3111497 <GO>}

Hey, I just wanted to get a couple of more questions in. First, there's a lot of -- there's a lot of reports around the current FCA case in the UK around business interruption in that [ph]. And so if you could just take a moment, if that case goes against the industry, is that going to be something that's going to be -- come back in sort of hit for you guys or if you don't want to answer that question, maybe you can just talk to us a little bit about your -- or remind us about your business interruption type of exposures?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Okay, thanks, Greg. So the FCA case is UK-specific, and it is about particular wording types, and there are a number of different wording types. We write less than $10 million of that business in the Group. So while there will be potential exposure there, it is not a significant book that will have an impact going forward and something that is contemplated in our universe as we look at everything across the board. Where that goes from there, I don't know and I don't think anybody knows.

Q - Greg Peters {BIO 3111497 <GO>}

Yes.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

But in terms of the impact it will have on us, it's a pretty small amount of the business we write.

Q - Greg Peters {BIO 3111497 <GO>}

You said it's $10 million of subject premium or $10 million of limit exposure?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

No, it's premium.

Q - Greg Peters {BIO 3111497 <GO>}

No, okay. Here in Florida, we had our first hurricane already or semi-hurricane. Can you give us an idea, because we are in CAT season, if there is a -- if there is a major CAT event, what -- how is your reinsurance structure positioned this year to hold up if there is a -- if there is a -- if a major event hits the US, how should we be thinking about that for your company?

A - Jay S. Bullock {BIO 3644311 <GO>}

Yes, Greg, it's not dissimilar from what it was last year. And our reinsurance retention is designed to manage quarterly volatility and meaning the retentions that we had in 2019, I know there was a lot of questions around this in '18, and the -- but we haven't changed, we haven't made any material changes. So we have the same appetite and exposure that we had last year.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. The last questions are on capital management. Obviously, you talked about the capital raise. It's -- the stock is trading at a substantial discount. I know some of the larger companies have paused their share repurchase programs, and I know you have a dividend. But I'm just curious what your positioning is on capital management for the near-term considering where the stock price is, because it certainly seems to be a good use of cash or extra capital to buy stock here?

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Yes. This is a -- this is an obvious one, when you look at it economically, but the unknowns in the COVID arena and on the liability side have more than just regulatory and rating agency scrutiny. So the potential buyback shares is a lot more limited right now than it was in prior years.

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Q - Greg Peters {BIO 3111497 <GO>}

Okay. Thanks for answering my follow-up questions.

Operator

Thank you. This now concludes our question-and-answer session. Now I'd like to turn the conference back over to Mr. Kevin Rehnberg for closing remarks. Please go ahead.

A - Kevin J. Rehnberg {BIO 3832713 <GO>}

Thank you. I would like to thank our employees for their continued efforts in trading through these difficult times, our producers for continuing to work with us, finding risks and helping solve our customers' problems and to our shareholders and all interested parties, who are continuing to support us and joining us today. So thank you everybody, and hope you have a good day.

Operator

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