Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Frederique Sleiffer, Analyst
- Greg Peters, Analyst
- Jeff Schmitt, Analyst

Presentation

Operator

Good day, and welcome to the Argo Group 2019 Third Quarter Earnings Call and Webcast. All participants will be in a listen-only mode. (Operator Instructions). Please also note, today's event is being recorded. At this time, I'd like to turn the conference call over to Mr. Brett Shirreffs, Investor Relations. Please go ahead.

Brett Shirreffs {BIO 15817618 <GO>}

Thank you and welcome to Argo Group's conference call for the third quarter of 2019. 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, Interim 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. Before we get started, I'd like to formally welcome Kevin Rehnberg to the call. As reported, Mark Watson, our former CEO and President, announced his retirement earlier this week. Kevin joined Argo in 2013 to lead our US operations and has led the turnaround performance of that business. At the beginning of 2019, Kevin was appointed both CEO of the Americas and Chief Administrative Officer for the Group. Kevin has previously joined us on earnings calls and represented Argo at industry forums. So he's a familiar face to most of you. I will now turn the call over to Kevin.

Kevin J. Rehnberg {BIO 3832713 <GO>}

Good morning and thank you for the introduction, Brett. I'd like to welcome everyone to today's call and thank you for your continued interest in Argo's operations. It is a privilege to have the opportunity to serve as the interim CEO of Argo Group. I would also like to personally thank Mark Watson for his 20 years of service for the company. His vision set the course for this Company and I'm honored to lead it from here. As noted, I joined Argo almost seven years ago. During that time, I've had the opportunity to work with many of our employees across the company and I'm proud of the results we have been able to achieve together. At our largest division, we have demonstrated the ability to grow profitable businesses and significantly improve service to brokers, customers using disciplined underwriting, effective capital management, innovation and entrepreneurial spirit, which are a part of the DNA of this entire company. I'm eager to put these operating principles to work throughout our enterprise to build value for shareholders.

Now, with the opportunity to look at Argo more broadly, I see Argo as a strong specialty company with the appropriate tools to leverage across our global platforms. However, our primary focus will be return on equity. We recognize there are opportunities for efficiency similar to what we had delivered in the US the past few years. When we return to share our fourth quarter and year-end 2019 results, I will have more to say about our forward strategy as well as financial metrics for 2020. For today, Jay and I are focused on giving you a fulsome review of the recent quarter. Looking at our third quarter results, we continue to see strong performance for our US operations in contrast to clearly unacceptable results from our international operations. The US posted its highest ever gross written premium figure for the quarter, continuing to build on the momentum of the first half of 2019, exceeding the record set in 2018. These results reflect nearly 10 years of intense focus by the US team to refine underwriting, claims and operations. Given the consistently strong impact of these actions, we have started to implement similar best practices countrywide -- companywide.

As we reported in our press release statement last week, in Q3, we registered catastrophe losses of $19 million, prior year accident losses of $42 million and additional current year accident losses of approximately $10 million. As you know, we faced a similar situation around losses in the second quarter. As we explained then, these adjustments come from areas of business that we have exited previously or where we have already taken aggressive underwriting actions to improve profitability. Some also come as a result of more frequent large loss events, which has caused us to adjust our current accident year expectations in certain business units. Clearly, we are not satisfied with our company wide loss ratio results this quarter. However, we remain focused on improving underwriting profitability as we look forward to 2020 and have several actions underway that leave us optimistic about our future opportunities.

We continue to be encouraged by the ongoing strengthening of rates, not only in our largest markets, the US, London and Bermuda, but also in most markets around the world. Rate increases accelerated during Q3 and while some lines are experiencing stronger pricing than others, overall, we achieved mid-single digit rate increases for the quarter. In the US, this is being led by property, professional, and certain liability lines. In international, property, liability, marine and energy are experiencing the strongest rate increases. We expect that these positive market dynamics will continue into 2020. In the US, our third quarter gross written premium of $530 million was up almost 10% year-over-year, the highest gross written premium for Q3 in our US operations history. And year-to-date, the same is true. $1.4 billion in gross written premium is our best year-to-date ever, more than 10% above our year-to-date at Q3 last year.

The strongest drivers of this growth in the quarter year-over-year were Argo Pro, our professional lines business; Trident, our public entity business; and our transportation and inland marine units. Inland Marine, while a small line overall, has more than doubled since Q3 2018 and is an area where we are eager to pursue further growth. Our construction business, no longer within casualty and operating as a business on its own, is also driving growth in an industry that continues to flourish in a robust economy. Between rate increases and strong organic business growth, Argo construction continues to exceed our expectations.

Jim Cornwell and his team continue to deliver strong results integrated with digital solutions and enhanced customer service, leading to strong financial performance. A significant factor in these positive results is a combination of the investments we've made in digital products and processes. Argo's ability to respond faster than our competitors is pushing us to greater levels of success. Our recently launched underwriting tools and our predictive modeling assist us in making better decisions and doing so faster than the competition. We're demonstrating that the time and expense we've devoted to building these tools were well spent. And again, that all comes back to our strategic decision making, putting profitability at the forefront wherever possible.

We continuously look at every business unit in the US, even if it's performing well. To be sure, we are allocating our capital in the most impactful manner. Again, special thanks to US team for their leadership in driving that profitability focus across the business, a strategy that is rapidly spreading across our entire organization. We're also always looking for ways to increase accountability and provide proven leadership across Argo. In fact, we recently made a change to our management structure in the Americas, establishing three new Executive Vice President positions to assist in running these businesses day to day. This will certainly help as I am focusing on my new role.

Looking at our international results now. Though we did take additional losses in Q3, we haven't wavered in our strategy of focusing on core profitable business despite the ongoing challenges in some markets. While the strongest drivers of this growth in the quarter and year-over-year were Argo -- I'm sorry -- right now, much of the international leadership has done and still clouded by past losses hitting our results. The underlying business is showing real signs of improvement. We have a number of useful international platforms, but I'm certain there are opportunities to improve their efficiency. We will have more to say about this in coming quarters.

Our gross written premium in the recent third quarter was down modestly in the quarter despite achieving significant rate increases, which reflects our disciplined approach to improving profitability going forward. We have several new leaders in our international business that have renewed our focus on underwriting profitability. Matt Harris is our Head of International and he has recently welcomed a new Chief Administrative Officer and Chief Actuary to his staff. These new leaders have been appointed within the last 12 months and have already -- we've already seen them take decisive action focused on bottom line results.

One action we took in Q3 to refocus resources and mitigate cost was a restructuring of our Syndicate 1200 underwriting operations in Asia. Moving forward, we will do most of our underwriting for Asia out of our existing platform within Lloyd's, having closed our local presences in Singapore and Shanghai as of mid-September. This will help reduce our operating costs, while still allowing us to access Asian markets through London and through our remaining resources in Hong Kong where we are committed to and enthusiastic about our clean energy business.

In the third quarter, we also made the decision to exit all Marine Hull business in London. Additionally, since the beginning of 2018, we have also ceased underwriting yacht, onshore energy, livestock and UK SME business through Syndicate 1200. Our portfolio remains diversified, but is now more focused on risks we have a history of generating underwriting profits in. This is part of our larger determination to focus our resources in lines and geographies where we can achieve profitable and consistent returns.

Our European platform has also undergone significant remediation over the last 18 months. As we mentioned last quarter, we have terminated relationships with a number of cover holders that were producing business that fell outside of our appetite or profitability expectations. Unfortunately, there's been a tail on the runoff of this business that has resulted in the need to strengthen reserves during the past two quarters. In addition to these actions, we also benefit from better market conditions. We experienced strong rate increases in certain lines of business, namely Syndicate property and professional lines.

Our Bermuda insurance business is also experiencing pricing improvement in response to some of the heightened claims activity. Overall, our focused leadership team is taking actions to improve underwriting results, this coupled with more favorable market conditions give us confidence that our results will be better going forward. And it isn't just internal confidence, from the improvements that we're seeing, Lloyd's has also given their sign off on our Syndicate plans for 2020, which we take as a vote of confidence in that platform.

We've spoken a bit about our digital investments already, but let's take a closer look at what that means. Our workflow and outsourcing costs are a big focus in two specific lines of business in the US right now. Those are construction and marine. Both of these lines have set aggressive goals to develop new digital solutions for their respective business processes using Argo's own digital talent in order to reduce outsourcing costs over the next two years. Argo has invested in tech for many years now and we're going to continue to invest in technology to benefit Argo and our clients.

For example, in partnership with Paladin Cyber, a startup founded in 2017 in which Argo Ventures invested last year, we announced the launch of Argo Cyber Sphere, a new suite of security tools tailored for small and mid-sized businesses. So to summarize our Q3 performance, we have continued to show strength in many ways. Our US division is strong. Our international division is resilient and across the entirety of Argo, we are focusing on deliberate, strategic underwriting decisions and continuous improvements within operations.

So we continue to look to the future. We will continue to remediate the challenged lines and grow in profitable areas, scaling our business and taking steps to manage costs and control our loss and expense ratios. We're going to continue to look at results business unit by business unit and invest where optimal for our bottom line and return on equity. With that, I'm now going to turn the call over to Jay Bullock to give some additional insights on our financials.

Jay S. Bullock {BIO 3644311 <GO>}

Thanks, Kevin. I'll provide some additional color on the results in the quarter and nine months, and then we'll open the call up to questions. For the third quarter, we reported a net loss of $25.1 million or $0.73 per share compared to net income of $40.6 million or $1.17 per share in the prior year quarter. On an adjusted operating basis, we reported a loss of $15.2 million or $0.44 per share compared to adjusted operating earnings of $23.5 million or $0.68 per share in the prior year quarter. As Kevin mentioned, a frustrating and unacceptable result for the quarter, and frankly, for the last two quarters. The quarter-over-quarter decline in adjusted operating earnings primarily reflects the current and prior accident year loss items we announced on October 30th.

Before I get into detail on those items, first, let me make some observations on the top line. Gross premiums grew 5.1% in the quarter versus the third quarter of 2018. Our growth was driven by positive rate trends across both our US and international operations as well as from our strategic growth initiatives. Having said that, this growth rate is slightly lower than in recent quarters due to a planned reduction in certain businesses in our international operations.

I will get into more detail later in my remarks, but we remain convinced that the current environment has momentum as we move forward and into 2020. I would point out that on a net written and earned basis, our growth was more measured at 2% and 1%, respectively. As we've talked about on recent calls, some of the risk management actions taken in our reinsurance purchasing and increasing our use of third-party capital has resulted in lower net retained premiums.

We expect our net to gross written premium retention will come in a few points below 60% for the full year. The loss ratio for the 2019 third quarter was 75.1%, up from 62.1% in the prior year quarter. The loss results in the 2019 third quarter were impacted by a few items that I would like to spend some more time going through.

First, we reported $42 million of prior year reserve strengthening during the quarter or 9.3 points on Argo's consolidated loss ratio for the third quarter. Reserve increases were related to the Company's Bermuda insurance business unit as well as European and London operations. This was partially offset by a modest net reserve decrease within our US operations. We conduct reserve reviews of all ongoing businesses each quarter.

Our process includes a systematic feedback loop between reserving underwriting claims and reinsurance that enhances our ability to react quickly to the findings of the reserve reviews. As we have stated previously, much of what we have seen over the last two quarters has been a result of new information received relating to the resolution or notification of several large losses. We will continue to closely monitor claims activity for severity changes that have recently emerged and have been noted by several of our peers.

Approximately half of our prior year development this quarter was related to Bermuda casualty and professional lines business. Last quarter, we discussed how we had development in our utilities class, most directly related to California wildfire exposure. We saw some further development on our utilities class during the quarter largely related to losses away from any wildfire exposure. This business is largely underwritten on a claims-made basis, and as such, we don't expect there to be material further deterioration for known claims and much less for the class in total.

Development in our professional lines business in Bermuda was driven by new case reserves established on a few specific claims and updated information on a number of other claims, primarily related to loss estimates. In Europe, we experienced further deterioration on business written through several cover holder relationships that were previously terminated. Issues identified included an increased incidence of large losses and difference in expectations in classes written.

In London, unfavorable development was largely related to movements on large claims in marine and energy and other liability exposures. In addition, during the third quarter, we reported higher current accident year losses, excluding catastrophes of approximately $10 million in our international operations. The losses are primarily related to property, liability and marine lines within our European and London business units.

The adjustment reflects a change in the actuarial estimates based on a more frequent occurrence of large losses and the recalibration of current year -- of the current year based on prior accident year reserve adjustments. When we increased the current accident year loss ratio in the current quarter, we do show on a year-to-date net earned premium. As a result, some of the current accident year strengthening represents a catch up for the first half of 2019.

Lastly, catastrophe losses added approximately $19 million pre-tax or 4.3 points on Argo's consolidated loss ratio for the third quarter. Catastrophe losses were primarily related to Hurricane Dorian, Typhoon Faxai and weather related losses in the US. We believe that the combination of accelerating rate increases and remedial underwriting actions taken will lead us to stronger underwriting margins going forward.

Overall, our expense ratio of 36.3% was down 130 basis points year-over-year. While our focus is on growth and underwriting income, we continue to pursue initiatives, which we believe will drive further improvement to our expense ratio. Notably, our total underwriting expenses are roughly flat in the quarter and on a year-to-date basis, while our top line has continued to scale. Separately, I would note that we recorded $3.7 million of costs related to activities, which resulted from the proxy solicitation process and related activities during the third quarter. We do not believe these expenses are representative of our day-to-day business operations and have consistent with prior quarters excluded them from the calculation of our expense ratio in adjusted operating earnings.

Touching on the US operations for a moment. The loss ratio for the 2019 third quarter was 61.4% compared to 56.1% for the 2018 third quarter or an increase of 5 points. The increase in the 2019 third quarter ratio was primarily driven by a reduction in favorable prior year reserve development and to a lesser extent, a higher current accident year ex-cat loss ratio. Catastrophe losses were roughly flat year-over-year. The 1.6 point increase in the current accident year ex-cat loss ratio was driven by modest increases in property, liability and professional lines loss ratios.

The expense ratio in the US was 31.9%, down modestly from 32.5% in the prior year quarter. The decrease primarily reflects the benefits of scale and lower acquisition costs and are a result of increased ceding commissions on certain reinsurance programs. The lower acquisition costs were partially offset by continued strategic investments in people, technology, including digital initiatives and support of growth and the growth of our business.

In our international operations, gross written premiums decreased by 1.2% to $353 million compared to the 2018 third quarter. Growth was achieved in property, liability and professional lines, partially offset by planned decreases in specialty lines. Increases in property, liability and professional were primarily due to continued rate increases and some growth in new business. The expected decline in specialty reflects the impact of underwriting actions on unprofitable classes of business, including exiting certain lines, certain business in London and the termination of the cover holder relationships in Europe. I've spoken -- I've already spoken about the losses impacting the international operations during the quarter, so I won't go back through that. The expense ratio for 2019 third quarter was 38.9%, an increase of 1.1 points compared to the 2018 third quarter. The increase in the expense ratio was driven by continued investments in technology and severance costs associated with the exit of certain businesses.

Turning to investments. Our core portfolio continues to perform quite well with net investment income growing nearly [ph] 17% in the third quarter. The total return in the quarter was a positive 0.6% [ph] or up approximately $30 million. Our year-to-date total return is a strong 5.7% or up $276 million [ph]. This compares favorably to this time last year when we were only up 1.1%. Our portfolio was positively affected in the third quarter as the US 10-year rally, while spreads remain flat and while major equity indices were up modestly, certain exposures to energy and small-cap value stocks led to a small negative mark. Finally, the strength of the US dollar had a small positive impact on the portfolio and a small overall negative impact on the balance sheet as the dollar rallied against euro, sterling and Brazilian real, which are relevant to our business and portfolio.

In our core bond portfolio, the current yield is approximately 3.1% and reinvestment opportunities are currently 70 basis points to 80 basis points above treasuries or approximately 2.5%. Our risk portfolio, which is a mix of equities, high yield debt and alternatives was down 1% for Q3, but up 11% year-to-date.

Equities continue to be the strongest driver in performance, offset by illiquid debt, which includes emerging markets, special situations and bank loans. As it relates to net investment income, alternatives contributed $7.3 million in the quarter. Interest and dividend income increased year-over-year due to roll-off [ph] of the portfolio. With the significant rally in US Treasuries, meaning, of course, reduced yield, the future reinvestment rate just mentioned is lower as maturities roll-off of the portfolio, which will negatively impact the interest income portion of that investment income.

Book value per share stands at $55.18 per share at the end of the third quarter. Book value per share growth plus dividends is up 9.1% during the year-to-date period. For the nine months ended September 30th, our annualized return on average equity was 70% and our adjusted operating return on average equity was 3.2%. While these results are certainly lower than our expectations, we expect improvement as our corrective actions take shape. Operator, that concludes our prepared remarks and we're now ready to take questions.

Questions And Answers

Operator

(Operator Instructions). Our first question today comes from Greg Peters from Raymond James. Please go ahead with your question.

Q - Greg Peters {BIO 3111497 <GO>}

All right. Great. I have a couple of questions. I just want to go back to the commentary around the international business and unpack -- you provided a lot of information, so I'm going to have to go back and read the transcript, but there was a number of businesses that you said that you were exiting or have exited in the third quarter, and I was wondering if you could size up the total premium volume of those businesses that have been exited and may be not only in the third quarter, but on the year-to-date basis.

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

Yeah, Greg, this is Jay. I think the ones that were mentioned was Marine Hull, which is in London, the exiting of certain cover holder business in Europe. I'm trying to remember if we've seen any others. I think those were the two most significant. Marine Hull was less than a GBP30 million line at Lloyd's and we've been in it for a while, and just weren't getting the returns. The cover holders that were exited, I don't have their precise numbers handy, but my guess -- my estimate would be approximately $70 million of premium that we've gotten off of as a result of exiting those. So those are the two that come to mind. I can perhaps look into more detail, but that's what I've got for memory.

Q - Greg Peters {BIO 3111497 <GO>}

So is there specific expenses associated with those businesses that is unusual and is going to go away that's going to help improve the efficiency?

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

Well, the -- probably less specific expense. Of course, there's always acquisition costs, right? But that's not really the question. The question is the non-acquisition cost. So less expense reductions specifically related to the exiting the cover holder business. That said, simplification of that business unit is one of those objectives and so, of course, that can lead to -- that simplification can lead to expense reduction in the future and all the functional areas that support it, whether it's finance or claims or whatever is required to support it. As it relates to the exit of our Asian platform, there were a few million dollars in the international numbers related, as I mentioned, to severance costs that were part of the exit of that business.

Q - Greg Peters {BIO 3111497 <GO>}

Okay. Getting into the reserve charge, the second quarter in a row, I know you guys are frustrated with it, but clearly, the numbers are large. And in our experience, usually, it takes more than just a couple of bites at the apple to fix the problem, especially if you're going to be closing other lines of business. So I was wondering if you could provide us from a very big picture perspective, maybe with the actuarial range on the reserve charge to see how the actuaries were looking at it. Is there another bite at the apple that's going to happen at year-end? Sort of provide us some near-term visibility on how you think that's going to move.

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

Well, let me start with your last question. Obviously, we try to put forth our best estimate each quarter. And so, I would never say that it's impossible to see additional, but I would never say that I expect a future charge, otherwise, it wouldn't be a future charge, would it? I don't -- I'm not discounting the fact, especially given our track record, that these numbers are large. That said, $40 million on $2 billion in reserves, as a percentage -- only as a percentage is relatively small. As it impacts income, it's a large number. So I'm not trying to downplay that at all and I feel like what I would repeat is kind of what I went through in my prepared comments, which is we review each line of business each quarter. What's been frustrating has been the additional information that keeps coming to the surface each quarter and some of this -- let me give you an example. In professional lines -- sorry, what I want to try to -- the point I want to try to make here is when we say that we've taken action on some of these lines of business, I'd like to provide an example. So professional lines in Bermuda was driven by two related claims -- not two -- sorry -- two unrelated claims, both that had an element of cyber to them. One of them was affirmative cyber and the other one was what you might refer to as silent cyber.

On affirmative cyber, we've exited, we've gotten off all large company cyber and that's really what was driving that and that's really where most of the losses have come up and I think we're very, very close to having all of that rolled off the books, if you will, from an open exposure standpoint and the second one, I think there's a very much of a renewed focus by the underwriting team in Bermuda to think about the organization and where silent cyber might exist and taking action not to write professional liability lines where there might be material cyber exposure. Kevin, I don't know if you want to add anything to that?

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

Yes, I think it wasn't silent that we missed. It was silent that we accepted.

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

Yes.

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

On that particular risk, it was known, underwritten and it was part of the larger accounts that were being underwritten at the time, which we have gotten off worldwide, and we're down to a handful at the moment with only one carrying into next year.

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

So Greg, I feel like I'm not sure I covered all your points, but perhaps I did.

Q - Greg Peters {BIO 3111497 <GO>}

Well, you provided a fair amount of information, which is appreciated. I know there's other analysts that are going to be asking questions. So maybe we can talk about for a second the departure of Mark and the investigation into the compensation practices, et cetera. Can you give us an update on how that's proceeding, when you expect some conclusion about that? And give us some additional context, whatever you can. I know the lawyers are probably wrapping this in some sort of legal answer, but whatever color you can now provide would be helpful.

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

Yes. I think that's maybe most appropriate for me to answer, but I think what I would refer back to is earlier this week -- it's been a long week, but I guess it's only Thursday. On Tuesday, I think it was, we put out the announcement. We tried to provide detail on that announcement. We also filed a 13-D that went along with it, that had some detail. Most of those facts were picked up in one form or another by several different news outlets. That's all the material stuff I think that I can say about it, but I also think it's all the material stuff that we feel would be necessary to disclose.

Q - Greg Peters {BIO 3111497 <GO>}

Aren't there going to be, well, I guess I can go back and refer to that. Listen, I'll let others ask other questions. So thanks for your answers.

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

Thanks, Greg. s

Operator

Our next question comes from Jeff Schmitt from William Blair. Please go ahead with your question.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Hi, good morning, everyone. Looking at the runoff segment, going back a number of years, I think the average charge there has adverse development of around $10 million. It looks like that review though is being pushed off to the fourth quarter, it would fall in there, but why was that push off? And is there any color you can provide on what you're seeing there? And what is in those runoffs?

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

Sure. Absolutely. So I've been here 11 years. I think this is the second or third time when we've said, hey, look, we need more time and part or all of the analysis gets pushed into the fourth quarter. What's unique this year is, as we had mentioned in the past, we have undertaken proposals on what you might call a run off solution, whether it's some sort of structured reinsurance, a transaction that provides some coverage and perhaps some finality [ph] to some of this. That took up a lot of the team's time. It is ongoing, and -- but we expect to have it concluded prior to year end. Because it's ongoing, the team didn't have the time to do the other work that they've done and whatever the conclusion is, whether we do something or don't do something, it will be part of that transaction. Our run-off goes back to the history of the early, early years, 30, 40, 50 years ago of Argonaut and includes things like, as you would expect, some small in environmental exposure and also the risk management business, which was the historic workers comp business that the Company exited in 2005. Just to kind of put ranges around that, our net exposure on asbestos and environmental is less than $50 million. And our exposure on risk management, which is again, the workers comp is less than $200 million.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. And then just thinking about the E&S business, obviously, seeing growth take off for a lot of competitors just given some dislocation there, pullbacks by some of the big players, can you touch on what type of growth you're seeing in your E&S business this quarter? And how margins are -- underwriting margins are trending there?

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

Yes. This is Kevin. I'll take the question here. We are seeing opportunities similar to what you're hearing from other companies. And with the improvements in efficiency that we've put in place in some lines, it's allowing us to grow significantly. In other areas, it's giving us an opportunity to re-underwrite and get the rate we need. So it's been an interesting time where we've gotten a lot of good business that fits our appetite and the rate increases in particular lines of casualty, specifically or in professional liability are in line with what you're seeing in the rest of the market where it's strong double digits. And in property, we're seeing increase in rates, decrease in overall exposure, increase in attachment points and tightening of terms. So while there's some room to go in property, we're seeing some positive movement there as well.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. Is it safe to say then that E&S premium growth is higher than the, I guess, 10% you're seeing for the US operations? I mean, it's growing at a faster clip?

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

Yes. A little bit, yes. I mean, it's one of those things where we write -- in some areas where we're writing a book that's partly E&S and partly admitted. So is the same underwriting unit. So there's consistency across the board and the approach is being taken in certain lines. Look, there's no shortage of opportunities, is what I'm trying to say for us to write business we like and we think is very profitable in the US.

Q - Jeff Schmitt {BIO 19747235 <GO>}

Okay. That's helpful thank you.

Operator

(Operator Instructions) Our next question comes from Freddie Sleiffer from KBW. Please go ahead with your question.

Q - Frederique Sleiffer

Hi, good afternoon. Firstly, just wondering if you could give us some color on individual pricing by line? And for which lines you've seen quarter-over-quarter acceleration in rate increases?

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

Sure. Across the world, we're seeing solid mid-single digit rate increases. So the largest strong double-digit rate increases we're seeing are in property, which I just mentioned, and in professional liability, but most specifically in commercial D&O, where the rates have been moving up throughout the year, and we are in line with what we're seeing in the rest of the market. In international, property is seeing some good single-digit rate increases, but liability is seeing strong double-digit rate increases. So it really depends on where we're looking at. But across the board, we're seeing it with the exception of very few lines. And the lines that are not getting it are the ones that are most profitable in the industries.

Q - Frederique Sleiffer

Okay. Thanks for the color there. And then so what are your current loss cost trend assumptions? And why do you think you need to take extra rate to get ahead of loss trends?

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

Well, I mean, look, the loss cost trend assumptions have been consistent for the last couple of years in the sense that we -- well, yes, our approach to it, sorry, has been consistent. So we're taking in current factors that we see in the environment. And so, to the extent that those current factors are suggesting that loss cost trends are accelerating, which they are in certain areas, that gets factored into our pricing. So I can't really get into specific loss cost assumptions by line of business, but we're always factoring in the current environment. And so, if you think about, for example, the current environment and professional liability, right? There's a belief and some examples of the losses that [ph] are increasing and becoming more frequent. And so that is, I think, reflected in the fact that market pricing is moving up quite significant to get ahead of those loss [ph] cost.

Q - Frederique Sleiffer

Okay, thanks. And then just moving on to the expense ratios, it looks like US was down year-over-year and international is up a bit. So how should we be thinking about both of those individually going into 2020? And what's a good consolidated expense ratio that you're targeting in the next year?

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

Well, we stand behind our target of incremental year-over-year, trying to knock 100 basis points off the loss ratio. I think next year, our target would be another 100 basis points of being solidly in for the year and a 36 [ph] area. As it relates to the expense ratios, it's pretty easy to explain. Scale is what's driving the US. International is, and as I mentioned, additional technology spend and that bears a moment of explanation because that's not digital spend or something else. It's just more expensive these days to manage things like security, to manage things like infrastructure. And that's part of also what gets factored into our thinking about the platforms that we have. And by that, I mean, more sort of the legal platforms and where we can write the business and so forth. And how we can simplify that and how we can make that more streamlined. Much as Kevin has done in the US, that's the idea internationally. So overall, for our group, I've provided a number. We need to make improvement in international. We've got to figure out how to do that because all things being equal, we won't see the same level of scale in international that we have in the U.S.

Q - Frederique Sleiffer

Okay. And then just lastly, one for Kevin. So apart from the expenses that we just talked about, what lessons can you take from the US segments persistently strong performance to turn around international? And would you consider selling or disposing of international if the turnaround is potentially unsuccessful?

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

So with the US, we've been able to deliver solid double-digit growth for the last five years consistently in the low 90s range. In that time frame, we have sold businesses. We've shut down businesses. We've started new businesses. We've taken people who are running them well and moved them over, but we've managed to keep the headcount flat throughout that time frame and I think that's important because over the last seven years, we've gone from $950 million of gross written premium to what's -- you can extrapolate where we're going to get to this year based on last year. But -- and that growth has been through the increased use of technology and building resources out. So when you apply that same principle outside of the US, the same type of opportunities are there. We really like the platforms we have because when you're servicing specialty customers, if you're not just providing underwriting claims or risk management services they value, sometimes these platforms are valuable. And having access to Bermuda is really helpful. Having a reinsurance company is helpful and having access to Lloyd's is helpful.

At this moment, Lloyd's, from an efficiency standpoint, not just for us, is a very expensive place for us to conduct business. So we can figure out how to improve that. Does that mean that some things like Asia get shut down? Sure. Does that mean that some may get sold? If people are interested in things, we'll always entertain, but whatever is put forth and if it makes sense, we'll do it, but as a whole, international is not one thing. We've got a Lloyd's platform. We've got a reinsurance business. We've got the Bermuda insurance business, and we've got European companies as well as the Brazil operations in Latin America. So we'll look at each one of them like we look at all the businesses, focus on the returns and put the capital that we have available in the places we're going to get the best returns. I hope that was helpful.

Q - Frederique Sleiffer

Okay, well, great. Yeah. Thank you for the answers.

Operator

And, ladies and gentlemen, we have reached the end of today's question-and-answer session. At this time, I'd like to turn the conference call back over to Mr. Mark Watson (sic) for any closing remarks.

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

It's Kevin Renberg, but I would like to thank all of our employees for all the hard work they're doing. And I look forward to continuing moving forward with everybody to keep achieving good results. Thanks.

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

Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.