Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Greg Peters
- Jeff Schmidt
- Matt Carletti

Presentation

Operator

Good morning, and welcome to Argo Group 2020 First Quarter Earnings Conference Call. All participants will be in a listen-only mode. (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>}

Thank you, and good morning. Welcome to Argo Group's Conference Call for the First Quarter of 2020. After the market closed last night, we issued a press release on our earnings, which is available on 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. I'd like to begin with a few words on the current global health and economic situation. COVID-19 pandemic has affected all of us, either directly or indirectly. I'd like to express my appreciation to my Argo colleagues across the globe, who have worked diligently throughout this period largely on a remote basis. It has not been easy, but you have continued to serve our customers and producers with the consistent and engaged service level that they expect. I'm optimistic that we will emerge from this period as an even more resilient and dynamic organization.

Pandemic has impacted our business, but I believe that Argo is in a solid position to handle the effects of both the asset and liability side of our balance sheet. We're obviously watching the developments closely and we'll adapt our businesses accordingly. The situation has revealed that we are flexible organization, and our focus on risk management has prepared us for external shocks. I'll have more to say about this later, but first let me discuss some operating highlights from the first quarter and our views on the current environment.

From a revenue perspective, our business was not impacted by the pandemic during the first quarter. I'll touch on a claims impact of COVID-19 in a moment. Gross premium was up almost 9% for the group with a 16% growth in the U.S. and roughly flat in international.

Looking into the U.S. results first, we achieved accelerating growth in the period with strong new and renewal business production. Pricing continues to be a tailwind and was up again in mid single-digits on average during the first quarter. Property and professional lines were standouts with rate increases in the mid-teens, but the momentum is broad-based across almost all areas of the U.S. business. Additionally, certain areas are seeing tightening of terms and conditions or higher insured retentions, all of which should benefit our underwriting results going forward.

Submission growth in the U.S. was strong during the quarter at around 20%, roughly the same level of growth we saw during the fourth quarter of 2019. As the effects of the pandemic started to take hold in April, we have seen a drop-off in submission flow, but it's still positive year-over-year.

However, our renewal business has remained strong as well, and we have seen a mix of results so far with some businesses able to maintain growth momentum. Overall, gross premium in the U.S. was up modestly year-over-year for the month of April, assigned that our customers continue to value our Argo as a meaningful partner in their business. The impact over the coming months will be based on economic activity, so we will watch closely and react accordingly. In total, I'm pleased with our U.S. results in the quarter. I'm excited about the market opportunities in the U.S. and the team we have in place to move us forward.

Turning to international. We continue to focus on improving profitability of the book and selectively focus our resources on areas where we believe there are long-term opportunities to generate an attractive underwriting margin. As I spoke about last quarter, this is a uniform strategy across Argo. Underwriting profit is our priority. Gross written premium in international was roughly flat in the first quarter, with growth in liability and specialty offsetting the decline in property.

Top line results were impacted by our decision last year to exit certain classes in our Lloyd's insurance business. The first quarter showed a continuation of pricing momentum near double-digits with areas of property, liability and marine experiencing rate increases around 10%, and in some cases much higher than that. So far in the month of April, we have seen some negative pressure on premium growth, but a continuation of positive pricing trends.

In addition to rates, we have also adjusted our risk tolerance in some classes including reduced line[ph] sizes. For example, in our Bermuda casualty book, which is less than $100 million of gross premium, we have reduced our max[ph] gross lines size from $50 million to $25 million, while maintaining our net retention at below 25%.

Given the positive rate increases our Bermuda casualty team is achieving, this action is only expected to impact the top line by roughly $10 million for the year. It's just one example, but we expect actions like this along with better rates will lead to less volatility and stronger margins going forward.

Our International business could have almost $20 million catastrophes losses in the quarter, which was primarily related to the pandemic. Excluding COVID-19 charges there were minimal catastrophes and loss results were quite good and in line with our expectation in the quarter. Reserve development for both our U.S. and International segments was modest in the quarter. We're always going to have a mix of positive and negative movements in our reserves, but I'm encouraged by this overall result.

Additionally, we employed an internationally recognized third-party actuarial firm to perform an in-depth review of our reserves across the company as of year end 2019. I'm happy to share that their central estimate was in line with our carried reserve total at December 31, 2019. This is not an indication of any future performance, but it does give me more confidence following the actions we took last year.

Our group underwriting results produced a combined ratio of 103.2% for the quarter. That is not a number we're satisfied with, but it was significantly impacted by COVID-19. Splitting the charges related to the pandemic, our combined ratio was squarely within our prior stated objective of 96% to 98% for the full year and our adjusted operating ROE would have been 8%.

The pandemic has and will continue to impact industry results as well as ours. Some of our businesses like construction and surety have already started to feel the effects of a drop-off in demand. The severity and duration of any economic slowdown will influence the immediate and long-term impact on the industry's premium growth. We believe Argo as a specialty commercial insurance underwriter is well prepared to operate in this uncertain environment with a diversified product base, strong operational capabilities and talented staff. We have the teams, nimbleness, systems and tools to respond to market opportunities. Additionally, fortunate to be operating in a strong pricing environment that is not slowing. It's too early to share a full understanding of how our business and performance will ultimately be impacted by the pandemic, but most immediate negative effects will be on our investment income and written premiums.

So let's clear how the current situation will impact overall loss results across our book of business. Regardless, we remain focused on controlling the things we can control and that primarily means improving our combined ratio. Overall, we made some positive strides as an organization during the quarter and remain focused on our long-term strategy and delivering value for stakeholders. We continue to focus on applying a theme of simplify, reduce and eliminate across our operations, while selectively investing for the future and improving operations.

I'll now turn the call over to Jay for some additional detail on the financials.

Jay S. Bullock {BIO 3644311 <GO>}

Thanks, Kevin. As most of you already know, last week we preannounced certain items related to our first quarter earnings. As a result, I'll focus my comments today on providing more detail on the losses specific to the COVID-19 pandemic and a few other key items impacting our financial results for the quarter.

Despite the impact of the unusual losses in the quarter, Argo produced an operating profit of $12.6 million or $0.36 per diluted share, not a bad result given the circumstances. In the first quarter, as Kevin mentioned, U.S. gross premiums were up 16%, our growth was driven by a continuation of positive rate trends in strategic growth initiatives.

The strongest growth was in our professional liability and construction business units. Net written and earned premium growth during the quarter in the U.S. came in at 8.5% and 10.5%, respectively. For 2020, we expect net to gross written premium ratios in the U.S. to be in the low 60% range.

On the international side, our gross premiums year-over-year were approximately flat in the first quarter of 2020. As Kevin mentioned, rates were up across all lines in international and we saw pockets of growth, but maximizing underwriting profitability remains our focus. In some business units such as our Bermuda Insurance operation, positive pricing trends accelerated in the first quarter. We will continue to push for rate increases where the market will allow.

As we disclosed last week, the first quarter included expected losses stemming from the COVID-19 pandemic, which impacted our overall underlying profitability. For the quarter, the combined ratio was 103.2%, compared to 94.7% for the 2019 first quarter. The year-over-year increase in the combined ratio was primarily due to a higher loss ratio that was driven by catastrophe losses of $29 million, including approximately $26 million related to the pandemic.

I would highlight that reserve development in the quarter was essentially flat, much as it was in the prior year. It's a welcome change from the last few quarters of 2019. We do our own assessment of reserves at the end of every quarter. These estimates are also reviewed by our auditor, who has an independent view. Additionally, as Kevin mentioned, there was a group wide review completed by an independent third-party, not our auditor, as of yearend, that third-party work output was consistent with are carried reserves.

The charges in the quarter related to COVID-19 reflect our estimated losses through March 31. Clearly this event is ongoing, and it will take time to determine the ultimate losses associated with the pandemic. We do expect some additional losses in subsequent quarters, so we have addressed known and expected exposures where coverage is explicit. The magnitude of additional losses will primarily depend on how long periods of lockdown last and if future events are postponed or canceled.

Of the charges we recorded for the pandemic, most of the dollars, specifically $18.7 million related to the pandemic were in our International segment. These losses were roughly split between our contingency book written out of Lloyd's that provides event cancellation coverage and property exposures where we have some affirmative business interruption cover for communicable diseases.

In the U.S., the charge in the quarter reflects our expectation for additional claims related expenses and limited areas where affirmative coverage exist. Our direct pandemic exposure is primarily in our property and contract binding units. In the U.S., fewer than half of our property policies provide any business interruption coverage at all and the vast majority of these have specific virus exclusions. Where we do have affirmative business interruption coverage for communicable diseases, there are specific limits that are separate and distinct from the limits provided by the physical properties themselves, which also limits our potential exposure. In total, the vast majority of our business does not have affirmative coverage for communicable diseases.

However, where we do have affirmative cover we have assessed each policy individually and put up a specific provision commensurate with expected loss. It will be indirect impacts of the pandemic as well, for example, reduced expenses. Claims activity tends to correlate with risk exposures and we believe risk exposures should generally be lower under our current living and working conditions. We will have more to say on this in coming quarters.

Our loss ratio of 64.6% was up 8 points from the prior year largely due to the higher catastrophe and pandemic losses that I already mentioned. The current accident year ex-CAT loss ratio increased by 1.4 point year-over-year. This was due to an increase in our U.S. segment as some of the current and prior year actions during 2019 impacted our current view of losses. Additionally, we had a single large loss in the U.S. that increased the current accident year ex-CAT loss ratio by 30 basis points.

I would note that while the current accident year ex-CAT loss ratio in the U.S. was up from the first quarter of 2019 to the first quarter of 2020. The 58.4% we reported in the quarter was better than the 59% we reported for the full year of 2019. We believe this is the best way to think about the underlying margin dynamic in our U.S. book -- in our book, particularly in the U.S.

Our reported expense ratio in the quarter was 38.6%, which was up 50 basis points from the prior year. In the U.S., the expense ratio for the 2020 first quarter was 31.8%, an improvement of 2.6 points compared to the 2019 first quarter. The improvement in the expense ratio was driven by earned premium growing in excess of our expense base as well as additional seating commission, and some shifts in business mix.

The international expense ratio for the 2020 first quarter was up substantially at 45.6%. This increase from the prior year level was due to a couple of factors. First, we are supporting slightly more of the capital in our Lloyd's business in 2020 and with this we assume a higher share of the expense base. In other words, expenses allocated according to the level of capital provided and as we provided more capital, we retained more expense. These expenses are recognized from the beginning, but it will take a few quarters for the higher earned premium base to catch up.

Second, we have some non-recurring expenses related to a reduction in personnel on the quarter. And finally, we chose not to renew a major inwards reinsurance contract that was written on a net basis. We are aggressively focused on getting to a more sustainable expense ratio in the international segment. But we expect it will remain above 40% in 2020 as we continue to work to simplify our platform.

Turning to investments. Our net investment income was $35.5 million in the quarter, up nearly 5% from the prior year quarter. Financial markets experienced significant volatility driven by global response to the spread of the pandemic, S&P was down 20% in the quarter and credit spreads were significantly wider in both investment grade and non-investment grade fixed income markets, we all know this. As a result, our portfolio was down 2.5% overall in the first quarter.

Fortunately, we ended the quarter -- we entered the quarter with cash balances high after reducing risk assets in the fourth quarter as stated on our last call. Our derisking efforts helped cushion the markets impact on the portfolio in March. Alternatives were reported up $2.5 million in the quarter and included our investment -- and included in our investment income total. I would note that our private equity fund performance is reported on a quarterly lag and our hedge funds are reported on a monthly lag.

We have provided additional disclosure in the tables in the first quarter press release on balances in each of these allocations. Based on market performance, we expect some negative marks on these holdings when we report second quarter results. This has the potential to have a measurable negative impact on our reported investment income in that period.

We've had a solid recovery in the portfolio during April and the start of May. Additionally, we will record a gain in the second quarter related to the closing of our previously announced sale of Trident. The combination of investment portfolio, recovery and the sale of Trident has already helped us to recover approximately half of the decline in book value we experienced during the quarter.

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

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Greg Peters of Raymond James.

Q - Greg Peters {BIO 3111497 <GO>}

Good morning, Tom. Can we first focus on your disclosures around COVID? I was listening to your comments and I think you said in the U.S. business the vast majority of business interruption had a pandemic exclusion, but I don't want to put words in your mouth. And I assume that's the case for the -- same case for international, but can you confirm that? And then can you talk about how event cancellation surety, business interruption losses might evolve for you guys over the course of the next several months?

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

Yes, good morning Greg, it's Kevin. Well, I'll start with the first part of your question. Yeah, we did say that while there is some specific grant[ph] business interruption covers the vast majority of that coverage, it does have virus exclusions on it.

In International a lot of the property coverage we have is on the shared and layered programs, so the eye cover on that tends not to have those exclusions, but we don't have as much of it, and in each instance we specifically looked at what the exposures were made, appropriate adjustments based on what those exposures specifically were.

Relative to like a small SME type business, we've got very little of that and there is some coverage for it. But it's such a small exposure, it falls into the category of there is some coverage and in some places it is excluded, but it's like I said very, very small exposure. Shifting gears over to the surety question you had. Can you repeat that part of it with surety?

Q - Greg Peters {BIO 3111497 <GO>}

Yes, Kevin. I'm just -- as we think about how, -- we realize there's a lot of unknown variables going on, just curious, how you think, the second, third, fourth quarters might be affected by business interruption claims, event cancellation claims, surety claims?

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

All right, yeah.

Q - Greg Peters {BIO 3111497 <GO>}

And I'm not asking you to identify what the cat loss numbers are. I'm just trying to get a sense of the cadence of how these things will evolve within the company over the next several quarter?

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

Yeah, thanks for the clarification. So with respect to event cancellation, by the end of March we had a really good idea, there was a lot of things that were had been announced that they were either postponed or canceled with many being canceled.

So in our event cancellation book, which is underwritten out of the syndicate. In the international operations, the exposures were known and as those play out in terms of how they ultimately settle out, there will be some mix of results. Given that there were only two weeks in the quarter for surety there weren't any losses that came in early on, but the ongoing effects of the economy will obviously make that business different than it was in previous quarters, right, but trying to evaluate that is difficult at this point.

From a property standpoint, I think we've seen most of the claims come through or we knew there were specific coverage, and there will obviously be more things coming forward, but we expect the magnitude of that to be lower than it was in this quarter.

Q - Greg Peters {BIO 3111497 <GO>}

Okay. Thanks.

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

Kevin, if I could add just on the surety side. We've talked before about Surety, and the fact that we underwrite some energy business there, that's less than 17% of the overall Surety portfolio and it's regularly stress tested, and as you've seen, oil is back in the mid 20 range.

So we've been through periods like that before, and it's like I said, less than less than 17% of the portfolio. The other thing that I would note is that, in the Surety business most of our surety is commercial surety, and a lot of the businesses that are associated with that would be essential businesses. So not saying that it won't be impacted but those are factors that we think about when we think about the surety business.

Q - Greg Peters {BIO 3111497 <GO>}

Excellent clarification. And if you can, just a follow up. You mentioned that you're seeing -- just on new business you're seeing some pressure in construction surety. When I think about the reporting segments, the reporting lines that you guys have in your income statement, be it in the U.S. or in international, which areas do you think will see the most downward premium pressure from this catastrophic level of unemployment and what's happened to the economies here and elsewhere?

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

Yeah, it's Kevin again. That's a good question, Greg. On the U.S. side, and this applies to the company broadly, part of the reason that being a specialty company is helpful in times like this and other times is that you have a real broad spread of risk, and by industry classes and geographies.

So some of the areas where you'd expect unemployment to have an impact with say payroll related businesses, work comp being an example, the type of work comp we write is associated with essential businesses. So while we're going to see some impact, it's not going to be the same. It's also a relatively small portion of what we do as a group, I'm just using it as an example.

As I mentioned, in April we were up 5.6% in GWP in the U.S. The drivers of growth will not necessarily be what they were in previous years, right? Then that happens all the time -- with 15 discreet businesses in that segment, there's a shift from time-to-time. So we're seeing opportunities where the market is contracting and we're also seeing premium growth through not only this increase in year-over-year submissions, but through something (inaudible)

Internationally, it's a different story, right? Because a lot of that is driven by some larger accounts and things that are coming through the various countries, and some of those were affected (Technical Difficulty) in Europe before the U.S. business was affected.

So that business has been affected more from the top line standpoint in terms of either, where we were last year or what we may have expected, but the rates are still strong, I think opportunities are there. So I'd look at the impact initially to be more on the international side than directly in the U.S. side. But again, I'm not going to try to figure out how that may play out. It's too (inaudible) as of now.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. Thanks for the color. One other important question I guess to ask at this juncture, considering the unprecedented times we're in, would be, -- some comments around the company's capital position, the liquidity of the company, how you sit with the rating agency ratios et cetera?

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

Jay, you want to provide some color here?

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

Yes. Sure. So on the liquidity standpoint, I think as we mentioned, we had as I did mention in my remarks, we had moved to reducing risk assets at the end of the year that was designed to put the capital back in the -- into some of our underwriting businesses.

We continue that in the first quarter and you'll see that our cash in short-term liquidity is quite high, it was high at the end of the year and that remains high through the first quarter. From a capital standpoint, that first quarter, it reminds me a little bit the -- unfortunately, maybe it was March of 2009 when financials were published perhaps at the bottom of the cycle and March 31 was pretty close to the bottom of the cycle. And as I said, we've recovered quite a bit of capital from that point as have most companies, I would presume.

And so I think everybody lost capital from the market conditions. We feel like our capital position remains strong. And then the question becomes the permanence, if you will, of the dislocation, how long does it last and what does the recovery look like. So we have lots of alternatives as well if we needed to strengthen our capital base. But at this moment, we feel like our capital position is strong.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. Thank you for the answers.

Operator

The next question comes from Matt Carletti with JMP. Please go ahead.

Q - Matt Carletti {BIO 5249827 <GO>}

Hey guys, good morning. Just wanted to follow on, actually Greg's question there kind of the next step on capital and kind of ask it a little different way, but kind of capital priorities here and kind of trying to balance everything going on in the environment. So there could be some reduced exposures, pricing's good. a lot of change. Again, a stock that's trading at $0.60 on the dollar and that's pretty easy math in terms of book value accretion. So maybe just help us with maybe to -- help us gauge to what extent there may or may not be excess capital in the business? And then to the extent there is, how you view or assess kind of underwriting opportunities versus buying back stock at the extreme valuations.

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

Kevin, why don't I take the first part of it and then why don't you touch on the underwriting opportunities.

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

Okay.

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

All right, yeah. I appreciate the question. Just given the -- I would say given the economic and political environment that we're in right now, the repatriation of capital through share buyback is probably not a high priority for any company right now. And that said, we came into this year very excited about the underwriting opportunity. And so maybe, I'll let Kevin handle that. But I think that remains our top priority.

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

Yeah, thanks Jay for that. That is a true statement. And remember that the vast majority of what we have certainly in the U.S. business where the best opportunities are is in the casualty business, right, from both policy count and premium standpoint.

So those opportunities exist, there are people that are retreating for a variety of reasons, some are capital related, some are results related, but our ability to attract new folks to the organization to leverage the systems and relationships we already have, and continue to expand areas where we're making good headway and profit in the U.S. market is certainly there whether we do it from the platforms in the US to the Bermuda or out of the Syndicate.

Q - Matt Carletti {BIO 5249827 <GO>}

Great. And thank you for the color. I figured that would be the answer, and I could see a smart long-term (inaudible) Thank you.

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

Thanks Matt.

Operator

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

Q - Jeff Schmidt {BIO 15098244 <GO>}

Hi. Good morning. What type of exposure do you see, I guess just in the workers comp book, the D&L book? Is much of the workers comp provided to first responders healthcare workers or anything like that? And D&L, are you seeing in the uptick in claims there I guess just with the market movement?

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

Yes. So thanks Jeff for the question. As I mentioned, we're in some essential businesses, while we write a reasonable size of public entity business, we actually have a very small work comp book within that business, especially on a primary basis. So there hasn't been much activity.

We also don't expect a lot, just giving what our position is there. The largest area we have is through Rockwood on the work comp side, the second largest would be in Argo Insurance, which is really a focus on more grocery stores and restaurants relative to the comp exposure. So while there is some in those areas, it is not significant and it's a relatively small portion. The total comp writings of the company that where we are actually retaining risk is less than $125 million.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Okay.

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

So we're not really seeing that there. I'm sorry, you had a two-part question and I apologize, I forget the second half.

Q - Jeff Schmidt {BIO 15098244 <GO>}

The D&L book.

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

Yes. At this point, no. Well, there's a lot of talk about it, but at this point we haven't seen a significant increase in D&L relative to this situation.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Okay. And then just looking at growth in the U.S, obviously still strong. I think you said submission activity went from 20% down to remained positive, I don't know if you meant low single digits.

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

Yes. I was talking year-over-year. Sorry to interrupt, but I was talking year-over-year. So it was 20% growth in the fourth quarter submissions year-over-year. It was 20% in the first quarter. In April, it was positive -- it was less than 5%, but it was positive.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Got you. And I was just--.

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

Premium was up 5.6%.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Okay. I was curious if that had -- if you're starting to see that recover? And then maybe if you could just talk a little more broadly about the growth dynamics in the E&S market? What type of rate are you seeing there? Are you seeing standard insurers just given the risks out there moving away from some business that may be borderline pushing it to the E&S market? What are the dynamics you're seeing out there in E&S?

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

Yes, so the first part of your question about what are we seeing after April. It's way too early to tell for May. But what I will say is that, the tools we have put in place over the past years have allowed us to become a lot more efficient at attracting submissions that are more likely to translate into written premium.

So it's not just about submission flow, it's about the quality of submissions. And as we continue to refine the appetites and work with our producers on that, the percentage growth may not be a complete indicator of what the written premium growth maybe. And then the second piece is -- I'm sorry, repeat the second part you wanted.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Well, just the dynamics of the E&S market?

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

All, right. So what's happening there is there are areas where we may be committed to a customer base where there's contraction in an area. I'm thinking of construction at the moment, where even though there may be not be a lot of construction going on in a particular region, there are needs that a business has that are ongoing, and they're not necessarily being met and our ability to create products in an E&S environment is allowing for growth in an area that is somewhat hampered economically at the moment.

But what we're viewing that as is the opportunity to go get product in the hand of the customers who expand our customer base during this time, and eventually they're going to need the covers ahead. And we're hoping that with the relationship we're solving problems now that will lead to future growth. Aside from that, we are seeing the increases in the E&S area more or so than in some of those standard area.

Q - Jeff Schmidt {BIO 15098244 <GO>}

Got it. Okay, thank you.

Operator

(Operator Instruction) There appears to be no further question, I would like to turn the call back over to Kevin Rehnberg for closing remarks.

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

Okay, I would like to thank our employees again for there commitment to serving our customers and working through what's been a difficult personal situation working remotely, to the producers that are giving a lot of business to us, and share the same issues to our shareholders and to all the interested parties who came this morning. Thank you very much, and have a good day.

Operator

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