Q2 2015 Earnings Call

Company Participants

- Jay Stanley Bullock
- Mark E. Watson
- Susan Spivak Bernstein

Other Participants

- Adam Klauber
- Amit Kumar
- C. Gregory Peters
- Mark A. Dwelle
- Meyer Shields

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Argo Group 2015 Second Quarter Earnings Conference Call. All participants will be in listen-only mode. Please note this event is being recorded.

I would now like to turn the conference over to Susan Spivak. Please go ahead ma'am.

Susan Spivak Bernstein {BIO 1514699 <GO>}

Thank you, and good morning. Welcome to Argo Group's conference call for the second quarter and six months 2015 results. Last night, we issued a press release on earnings, which is available in the Investors section of our website at www.argolimited.com.

With me on the call today is Mark Watson, Chief Executive Officer; and Jay Bullock, Chief Financial Officer. We're pleased to review the company's results for the quarter, as well as provide you with management's perspective on the business. As the operator mentioned, this call is being recorded and following management's opening remarks you will receive instructions on how to queue in for questions for the future.

Such forward-looking statements are qualified by 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 conference call. For a more detailed discussion of these risks and uncertainties, please see Argo Group's filings with the SEC.

With that, I'll turn the call over now to Mark Watson, Chief Executive Officer of Argo Group.

Mark E. Watson {BIO 1463509 <GO>}

Thank you, Susan. Good morning, everyone, and welcome to Argo Group's second quarter earnings call. I'd like to share my thoughts about the quarter, after which Jay Bullock, our CFO, will add some commentary to the results. We look forward to responding to any questions you may have during the Q&A portion of the call following our remarks.

After the market close yesterday, Argo reported second quarter 2015 net income of $0.98 per share and six months net income of $3.03 per share. Growth in operating earnings per share of over – growth in earnings per share of over 12% to $0.91 per share, which is more than double what we reported for our quarterly operating earnings three years ago. For the first six months of 2015, our operating earnings per share of $1.94 grew 17% from the prior year. We continue to be encouraged by these results, but also recognize that we must be thoughtful given the increasingly competitive landscape.

The segments generated an underwriting profit, reflecting the continuous improvement in the quality of the business. Our combined ratio was 95.4% in the second quarter and 94.5% for the first six-month period, generating a 30% improvement in underwriting income for the first six months of this year to $37.2 million from $28.7 million in 2014. And we're making ongoing progress and achieving efficiencies across the organization, despite the continued effect of the non-cash charges related to our long-term incentive compensation.

Our underlying expense ratio is showing favorable year-over-year improvement that Jay will address in more detail during his commentary. I should also add that our loss reserves remain strong as we've benefited from favorable loss reserve development now for the last 17 consecutive quarters, and I believe each of the last 10 years were positive as well.

And while it comes as no surprise that market conditions are challenging, we continue to find opportunities in our niches to grow, we believe, intelligently. Our top line growth was up 7.2% in the second quarter and was up 5.3% in the six-month period. Across the entire business, rates have flattened out, with some risks like property having significant reductions. But perhaps as important, we're achieving the expected retention rates in both our well-performing books of business and those where we are actively working on improving risk selection.

Now let me briefly comment on each of our operating segments. In our Excess and Surplus lines business, gross written premium was up 11.6% in the second quarter and 13.6% for the first six months of 2015 compared to 2014. We're achieving growth in our core casualty units, our largest business by volume within E&S, reflecting the benefit of our investments in technology and process management that we've been talking about for several quarters.

In addition to technology, we've invested in additional bench strength in areas such as environmental business, where we recently hired a new team that will complement our ongoing team. On average, rates were modestly down across the segment, other than property which is down a fair bit due to intense competition.

In our Commercial Specialty segment, overall premium was up 10.6% in the quarter and 5.3% in the first six months. Growth was driven by our program business and Argo Surety. We have several initiatives underway that will drive future growth in this segment; and as these businesses come on line, we will be speaking about them more in the future. In several of our businesses in this segment, we continue to achieve rate increases that are in line with the progress we had hoped to make. Despite this, we are seeing a continued increase in competition, and especially in areas such as the public entity and mining business.

Turning to Syndicate 1200, while our results remain solid and consistent, pricing and competition remain intense across all the Lloyd's market. We grew our gross written premiums by 3% in both the second quarter and the six-month comparisons with 2014. Growth is primarily being driven by initiatives we've started in the last three years. An additional factor impacting the numbers, most notably the net retained position, is our increased use of third-party capital at the syndicate. We believe having strong partners participating in the results gives us the flexibility to expand the business when the opportunity presents itself, and also gives us an attractive source of fee-based income.

Overall, gross written premiums in our International Specialty segment rose 3.2% in the second quarter and 5.7% in the first six months compared to 2014. The quarter's growth reflects some new business opportunities in our Bermuda-based business; and in Brazil the results are not surprisingly being impacted by more challenging economic conditions and by the continued weakness in the local currency. Despite this, we remain enthusiastic about the long-term prospects in this market and about the progress we are making.

Turning to investments, our portfolio is up $7.4 million or 18 basis points in the second quarter. While the yield curve steepened in the quarter, June was the toughest month because yields increased, credit spreads widened and equities gave back much of the gains of April and May in the month of June. The volatilities tied with – and there was a bit of volatility because of Greece. But if you think about it, this was a repeat of the second quarter of 2013, but we fared much better this year than we did two years ago, mainly from shortening the duration of our investment portfolio.

Net investment income for the quarter was $21.8 million, up slightly from both the prior quarter and the prior year. The increase was driven by the timing of dividends from a private investment and a modest increase in our yield from our core fixed income portfolio. Having said that, we expect the yield on the portfolio to continue to improve with the rates normalizing. So I don't want to predict we've hit the bottom, but I think if we haven't we're awfully close to it; and I do expect that, going forward, we would see a modest rise in investment income.

Moving on to capital management. Our philosophy has always been first and foremost to support the balance sheet of the company, have capital available for our opportunities as they arise and to actively return excess capital to our shareholders in an effective manner.

When we last used our stock in an acquisition, in 2007 when we acquired our Bermuda platform, we issued 9.2 million shares. Since that transaction, we've repurchased all of the stock that was issues and the additional capital gained provided the base for expansion into new businesses, including the syndicate at Lloyd's that now represents approximately 40% of our business, both on a revenue and a net income basis. Or to say differently, all the shares that we issued back in 2007 to buy the Bermuda company we've now bought back; and we're sitting with 45% more business, all of it spread around the world outside the U.S.

In total, over the last six years, we've returned more than $411 million of capital to shareholders with $326 million of capital to shareholders through share repurchases and $85 million through cash dividends. We continue to view our stock as one of the best investments out there, and we'll balance the return of capital to shareholders with our priority of building the Argo franchise and shareholder value in the long run.

We have a very different company today than when I invested in the company in 1998, some 17 years ago. Our focus and commitment to specialty underwriting and the diversification of our platform are producing steady, profitable growth in our core businesses. It wasn't easy to get here, but from where we sit now with the global specialty franchises in the world's leading insurance markets we feel quite good about where we are and where we're going. Our focus will remain on generating growth in book value and providing stable returns for shareholders.

With that, I'll turn the call over to our Chief Financial Officer, Jay Bullock.

Jay Stanley Bullock {BIO 3644311 <GO>}

Thanks, Mark, and good morning, everyone. I'll provide some clarifying detail on the financials and then open it up to Q&A.

As mentioned, while revenue growth continues to be a challenge, we're growing the businesses we believe have the best returns, as evidenced by the growth in E&S; and improving the businesses where results have been disappointing through better risk selection, as evidenced by the improvement in the current accident year results in almost all of our segments. The latter is a key element in driving growth in underwriting income, which, as we've said in the past, is the measure over which management and business leaders have the most influence; and it's the number that ultimately drives better returns.

Of note, related to loss trends, the second quarter and first six months of 2015 were characterized by continued overall favorable reserve development from prior accident years and a relatively lower-than-expected level of catastrophe losses.

For the quarter, we experienced net favorable reserve development of $5 million; and for the first six months, $8.7 million. Last year's larger six-month number, $23.3 million of positive reserve development, was influenced significantly by the release of prior-year catastrophe reserves at the syndicate. The largest component of this quarter's release was from our E&S business at $6.8 million, concentrated in casualty, professional and transportation lines.

We had $2.2 million of favorable development in the syndicate in the quarter from property and liability, marine and energy. International Specialty had $1.2 million of favorable development coming basically from all lines; and we had $4.4 million of adverse development in Commercial Specialty related to Argo Insurance, our (12:12) grocery and retail business, primarily from accident years 2012 and prior.

In the second quarter, we posted a current accident year non-cat loss ratio of 55.9%, about 2 points better than the prior year. Catastrophe losses that impacted our business for the quarter were relatively low at $2.3 million in losses driven by U.S. storms.

Let me address a few items related to the expense ratio. On a reported basis, the second quarter of 2015 expense ratio was 40.3%, an improvement from 40.7% in the 2014 quarter. The reported numbers for the quarters include non-cash equity compensation charges of $10.4 million in 2015 and $6.8 million in 2014 related to the increase in our stock price during the relevant quarter. We, of course, anticipate an element of this expense each quarter. For example, if the stock were to move up 2% to 3% in a given quarter, we would expect to see an expense of approximately $2 million to $3 million. However, in the most recent quarter, the stock moved up by over 11%.

Equity compensation expense is driven by outstanding option awards that are valued using a traditional option pricing model, which incorporates such elements as length to expiration, volatility and stock price. As the stock price increases from the strike price, you get a higher option value and, therefore, a higher expense.

For Argo, a simple analysis would suggest that for every $1 increase in our stock price, we see approximately $1.5 million to $2 million of expense. Excluding this charge from the quarters, but adding the middle of the expected range, let's say, $2.5 million, our expense ratio would have been 38%, an improvement from 39.4% in the same period of 2014.

Moving on to realized gains, we saw a relative decline in the net gain position over last year's second quarter. The decline was driven by a smaller contribution from the core bond portfolio and by a moderately weaker U.S. dollar. Positive contributions from our equity and alternative strategies were roughly the same in each period.

For the second quarter of 2015, the effective tax rate for the group was 19.6%, which is very close to our assumption of 20%. For the six-month period ending June 30, the tax rate was 10.7%. The lower effective rate is mainly due to three factors: non-taxable foreign exchange items in the UK, the receipt of a state tax refund in the first quarter of 2015, and a larger portion of our earnings in 2015 attributable to the Bermuda operation.

Finally, of note on the balance sheet, we ended the quarter with a pre-tax unrealized embedded gain of $167 million, down from $197 million at March 31. This decline was largely related to wider spreads in U.S. corporates and municipals, movements in foreign exchange related to certain currency derivatives, and the realization of previously unrealized gains from the sale of some equity positions.

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

Q&A

Operator

Very good. We will now begin the question-and-answer session. Our first question comes from Greg Peters of Raymond James. Please go ahead.

Q - C. Gregory Peters {BIO 3111497 <GO>}

Good morning, everyone. Congratulations on the quarter.

A - Mark E. Watson {BIO 1463509 <GO>}

Thank you.

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Thanks.

Q - C. Gregory Peters {BIO 3111497 <GO>}

A couple of questions. Just from a big picture perspective, Mark, I was wondering if you would add some commentary around some of the M&A and, specifically, the opportunity to pick up new teams and bring on new hires to help build out your footprint considering everything that's happened in the last year?

A - Mark E. Watson {BIO 1463509 <GO>}

So we've had more resumes hit my desk and Jay's desk and everyone else's desk in the last six months than the last six years. The number of people that are interested in joining our company is terrific; and I feel like a part-time recruiting agency right now.

Q - C. Gregory Peters {BIO 3111497 <GO>}

How do you navigate that process, because a lot of individuals are coming to you promising wonderful results they've produced at their other firms and I'm just curious how you approach that?

A - Mark E. Watson {BIO 1463509 <GO>}

Well, most of the people that we've been talking to, Greg, are to fill roles that we were already looking for going forward. There are only a couple of people that we've spoken with that, had they not come to us, we wouldn't have been looking. For example, we've had a search going on for quite a while to replace our Group Head of Professional Liability and we just – I think we announced on Monday that we hired Steve McGill, who came out of the XL Catlin merger as an example of that. But that was a role that – that, like many of the other roles that I think you'll see us announce over the next six months or so. They're roles that we were already looking to fill, but we now have a much broader pool of talent to choose from.

Q - C. Gregory Peters {BIO 3111497 <GO>}

Thanks for the color on that. I suppose there's the potential for an uptick in expenses if you bring on some new teams. Could you give us an update on some of the technology investments you've made over the last couple of years to improve your expense ratio? And can you give us how that investment is yielding in terms of returns for you guys?

A - Mark E. Watson {BIO 1463509 <GO>}

Sure. So, let's go back to the first part of your question. You are right that if we were to hire a substantial number of underwriters at one time that there would be a short-term uptick in expenses; and if we do that we'll let you know. That hasn't happened so far.

Most of our money has been spent, not on recruiting more people, but on building better systems, which we've talked about on the last few earnings calls. And what I've said is that what we're trying to do is figure out how to process a lot of the small account business more effectively.

We see plenty of business today. It's just making sure that we have the time to process that business when it comes in the door. And I think I've said on the call last quarter that we know that if we can turn around a quote in our E&S business, which is where we've had most of the investments, we know that if we can turn around a quote within the first few hours of it coming in the door, that we'll be far more effective in actually getting to bind that business onto our books. And the difference in magnitude of turning around something in a few hours or not getting to it until the next day is something like five to one and maybe even more than that.

Now a lot of the business that we're writing today that we're really getting quick turn – where we're getting that quick turnaround is smaller account business. So while premium was up 10%-plus for our casualty business, on a policy count basis it was up even more because we're writing smaller accounts, which is great for us because they have less volatility and the loss ratio looks pretty good.

I think that we're getting near the end of a lot of the technology investments that we've made in the first wave, but now we've figured out what we can do to improve it again and keep reinvesting. And so I would expect that, notwithstanding how competitive the marketplace may be in E&S, that we would still be growing our casualty business this year.

And I think we may have a chance to even grow it at a bit higher rate next year if we get a little bit more traction in our platform.

Q - C. Gregory Peters {BIO 3111497 <GO>}

With respect to the technology investment, is there going to be some expense tailwind as you go from investment phase to harvest phase?

A - Mark E. Watson {BIO 1463509 <GO>}

No, I don't think so. Because, remember, for most CapEx projects, companies like ours included tend to amortize that expense over the life of the project; and I think that we've been amortizing the expense of this over a four or five-year period.

Q - C. Gregory Peters {BIO 3111497 <GO>}

Okay. And just finally, could you just give us an update on...

A - Mark E. Watson {BIO 1463509 <GO>}

Let me just – hey, Greg, let me just say one last thing; and that is, remember what I've said is the real benefit for us isn't necessarily reducing expense, although we will be reducing expense, but it's not having to add expense and add payroll as we go forward.

Q - C. Gregory Peters {BIO 3111497 <GO>}

Yeah. That makes sense. And just finally, I was looking at the variances between gross and net written premium in a couple of your segments. And while gross grew in one or two of your segments, the net didn't; and I'm just curious if there's any change in your approach to reinsurance purchases at any of the subsidiaries?

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Yeah. Greg, this is Jay. There's really two places where that's most pronounced. One is in the syndicate. That's a function of the fact, as Mark mentioned, we have third-party capital that participates with us on the syndicate. Over the last couple of years we've increased the use of that third-party capital, so it's having an effect on the variance in growth rate between gross, which includes much of that third-party capital, and net, which does not. Then...

A - Mark E. Watson {BIO 1463509 <GO>}

And that probably will continue in 2016.

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Right. And then in the E&S business, which is the other place where it's most pronounced, one of the things in one of our, again, small account businesses, we began offering policies that had multiple-year nature to them, two year; and that has an effect on the written versus earned as well. So that's the other place that the variance is coming from.

Q - C. Gregory Peters {BIO 3111497 <GO>}

On the third-party capital, do you pick up any fees as the result of your partnership with them or does it come back in the form of contingent profit commission or something like that?

A - Mark E. Watson {BIO 1463509 <GO>}

Well, it's a little bit of both, but it's mainly fees on the front-end. And so if we structure it properly, then whatever lost underwriting income we have we will make up for with fee income. It may not be dollar for dollar or, in this case, pound for pound, but it's pretty close to that. But, of course, it frees up capital, so our return on capital invested in the syndicate on a percentage basis is actually better.

Q - C. Gregory Peters {BIO 3111497 <GO>}

Okay. Thank you very much for the answers.

Operator

Our next question comes from Meyer Shields of KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning. Two quick questions, if I can. One, with the grossly (24:18) adverse development in specialty, can you give us a sense of how much of that block of business has already been closed?

A - Mark E. Watson {BIO 1463509 <GO>}

I'm not sure that we've closed off any block of business, but there's certain accounts that we've been non-renewing as we go through and re-underwrite our portfolio, which we've been talking about for, well, more than a year now. So if I reframe the question and say how much more re-underwriting do you have to do, I would say over the next year there are probably – I don't know how many accounts there would be, but if I qualify it in terms of premium volume, there may be another $10 million worth of premium that we decide to non-renew, because it just doesn't fit the business model going forward.

Most of the business that we have in Commercial Specialty today is more of a risked-managed approach, so it's loss sharing with the policyholder; and we think that's a much better business model for us in the U.S. And so we'll probably run off a few more of the guaranteed cost policies over the course of the next year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. I was actually – I meant to ask about the claims, in other words the block of claims where the adverse development has been occurring. Are those – what percentage of that is...

A - Mark E. Watson {BIO 1463509 <GO>}

I would say that it's possible that we would have a bit more prior-year negative development, but I would quantify it in the range of millions of dollars, not tens of millions of dollars.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. And then roughly speaking, when you look at Brazil, does the economic situation there have any implications for the underwriting profitability of the business you're writing?

A - Mark E. Watson {BIO 1463509 <GO>}

It has a lot, particularly on infrastructure projects, or right now I should say lack thereof. So with the economy slowing down, there's not a lot of engineering and construction projects to insure or surety opportunities. And also, with all of the fraud coming out, particularly surrounding Petrobras, it's slowing things down and people are being more cautious.

Most of what we do in Brazil is a lot like the U.S. While we have some big accounts, a lot of what we insure are small accounts. We insure a lot of small professionals in Brazil through our protector platform. And we also insure them not only for liability, but we also insure their bicycles for theft. I mean, so a lot of those things. They're not as impacted by the economy as much as the bigger projects that a lot of us insure in Brazil.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's helpful. Thanks so much.

Operator

Our next question comes from Amit Kumar of Macquarie. Please go ahead.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks, and good morning; and congrats on the quarter.

A - Mark E. Watson {BIO 1463509 <GO>}

Thank you.

Q - Amit Kumar {BIO 19777341 <GO>}

Just a few quick questions. I just wanted to follow up to the previous discussion on consolidation. First of all, I wanted to get your thoughts on the ATC acquisition and what you thought about the level of controlled premium paid for a specialty franchise; and generally about the consolidation that you're seeing around yourself today?

A - Mark E. Watson {BIO 1463509 <GO>}

Well, I think as far as the ACC (27:55) deal goes, I think Chris got a pretty good deal though. In terms of the market, it's the same thing that I've been saying for a long time. If you've got a motivated seller, a deal's going to get done. And if you look at the transactions that have been done recently, there's been a motivated party to get something done. Do I think there are other deals to be done? Well, the rumor mill would suggest that. And I don't think we're through seeing things happen, but that doesn't mean they're all going to happen in the next six months. I think as companies think about where they're trying to go strategically, they will continue to consider that as an option, just as we all always do.

Q - Amit Kumar {BIO 19777341 <GO>}

I guess sort of related to that my question would be, in the opening remarks I think Mark said Argo is one of the best investments in the space. Is Argo for sale today? And if not, do you think more needs to be done at Argo, where it becomes a more attractive franchise to a buyer down the road?

A - Mark E. Watson {BIO 1463509 <GO>}

Amit, what I said in my remarks was that – I was talking about capital management and I was saying that we view Argo as an attractive investment and we're happy to keep buying the stock of Argo as an option for the use of our excess capital. We're building a great franchise; and that's what I'm focused on. I'm trying to build long-term value for our shareholders.

Q - Amit Kumar {BIO 19777341 <GO>}

Let me rephrase the question. If you look at the stock and where it's trading at versus some of the other companies, I guess the question I'm asking is do you think the franchise is ready where it is today, or do you think there is a glide path to continue to improve the ROE? And once you close that gap for some of the other specialty franchises, perhaps there is more upside at that stage potentially if a buyer shows up. That's what I'm trying to understand. Where do you sort of fall in that matrix?

A - Mark E. Watson {BIO 1463509 <GO>}

Well, I'm not sure it's a matrix, but what I'm focused on is continuing to grow the company and grow the enterprise value of the company. ROE is certainly one metric. And as you'll note, our ROE has improved substantially over the last three years. I'm mainly focused on growing book value per share. I think that's a better reflection of enterprise value, particularly in our case where so much economic value is created through the total return of the investment portfolio that isn't necessarily reflected in operating income or even net income because that only includes realized gains.

And so I don't think I can answer your question any more thoroughly than that. We're going to keep building the company for the long-term. And I think that if you look at our financial results, I think they speak for themselves. I think if we look at how we think about shareholders and managing the capital of shareholders, I think we've done a very good job. That's why I made the point in my remarks today that we've now bought back an amount of shares equal to the shares that we issued to buy the Bermuda platform, the

London platform and everything else that we've got going on outside the U.S. So that's where my head's at right now.

Q - Amit Kumar {BIO 19777341 <GO>}

Fair enough. Two other quick questions. One was in Syndicate 1200. Was there a comment where growth came from marine and energy? And I was trying to reconcile that from comments made by some other companies where they actually are sort of pulling back, talking about issues in the line and the pricing adequacy. Maybe I misunderstood this, but if you could just expand on that marine and energy comment in the press release?

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Yeah. Amit, this is Jay. I mean it's a very marginal amount of growth. And if you recall, that's a line of business that is not a very – it's a recent addition in the last three years. So we're talking growth of a couple of million sterling, not anything that significant.

Q - Amit Kumar {BIO 19777341 <GO>}

That's not meaningful. Okay. Final question, did you mention the assets backing the runoff line, or could you remind us what the number is?

A - Jay Stanley Bullock {BIO 3644311 <GO>}

If you're asking what the reserves are...

Q - Amit Kumar {BIO 19777341 <GO>}

Yes, sir.

A - Jay Stanley Bullock {BIO 3644311 <GO>}

...that are in the runoff, it's approximately $250 million.

Q - Amit Kumar {BIO 19777341 <GO>}

$250 million. And what was that number as of year-end?

A - Jay Stanley Bullock {BIO 3644311 <GO>}

$260 million. I don't have it at my fingertips, but it's running off $10 million, $15 million.

A - Mark E. Watson {BIO 1463509 <GO>}

Yeah. We're getting so near the tail of that that the rate of reduction now is much slower than it was six years or seven years ago.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That's all I have for now. Thanks for all the answers, and good luck for the future.

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Thank you.

A - Mark E. Watson {BIO 1463509 <GO>}

Thank you.

Operator

Our next question comes from Adam Klauber of William Blair. Please go ahead.

Q - Adam Klauber {BIO 1494359 <GO>}

Morning, everyone. You've had really nice margin improvement over the last couple of years, most of it, excuse me, on the core loss ratio. Going forward, do you think more of the improvement – when I say going forward, over the next two years or three years. Do you think more of the improvement comes from the expense ratio or should it still come from the loss ratio?

A - Mark E. Watson {BIO 1463509 <GO>}

Adam, I think that there's a chance the loss ratio improves depending upon where we grow. There are certain classes of business that we'd like to underwrite, even at a higher loss ratio because they have a lower expense ratio. So I think it just depends on our product mix going forward. If I ask the question differently, do I think we can improve the combined ratio from here, whether it's from improved loss ratio or improved expense ratio, the answer is yes.

In general, I like our loss ratio where it is, so I'd like to be able to write more risk at the same price and, therefore, reduce the expense ratio because we don't need to add much, if any, infrastructure going forward. So I would look for improvement in both and be happy if the combined ratio keeps going down. But I think in the short run, we're trying to scale what we have as opposed to keep adding.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. That's helpful. And as far as E&S – again, nice growth in casualty. Is that being driven by the economy? Is that being driven by your expanding presence? Could you maybe delve into that a bit more?

A - Mark E. Watson {BIO 1463509 <GO>}

To be honest, I think it's being driven by the team's responsiveness to their distribution partners. Some of that's driven by a better technology that allows them to be both responsive and thoughtful about the risks that they're underwriting. But they've also changed the way they do work; and the team has spent a huge amount of time over the last year thinking through how they do work.

And, as I think I said earlier on the call today, we're not trying to expand the number of opportunities within E&S right now, we're just trying to make sure that we can actually underwrite the opportunities that are coming in the door; and there's so much volume it's hard to get a look at all of it. So we've made changes in our workflow that have allowed us to see more of it and be more responsive. And I would look for that to continue in the short-term for sure, and that's kind of the next 18 months. I mean it may be lumpy from one quarter to the next, but I see that as a real opportunity for us over the next couple years.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. And then typically in E&S there's the accordion where the standard markets come in and out. And I know you tend to be on the smaller side, so you're somewhat insulated from that accordion. But having said that, are you seeing any signs of the standard markets becoming more aggressive in some of your niches?

A - Mark E. Watson {BIO 1463509 <GO>}

No. What I am seeing, though, is some competitors that were primarily doing things on a wholesale basis now going direct to retailers, or new E&S competitors coming in and having a retail proposition that is a bigger deal to them than their wholesale proposition. So in those cases, risks are getting to us as well.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. Okay. And then also in competition, not just in E&S, generally are you seeing more activity/competition from MGAs?

A - Mark E. Watson {BIO 1463509 <GO>}

Wow. There's always so much competition from MGAs. I'm not sure that I would say it's appreciably more. There's always a lot there.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay, okay. Thanks a lot; very helpful.

Operator

Our next question comes from Mark Dwelle of RBC Capital Markets. Please go ahead.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Yeah. Good morning. Most of my questions have been asked and answered, but one other one I just want to take a second on. You did the stock dividend earlier in the year. Just trying to get a sense, what's investor reaction to that been and is that something that you'll consider doing again in the future? And I guess just generally some comments on where that fits in amongst the various capital management strategies of dividend, special dividend, buybacks, et cetera?

A - Jay Stanley Bullock {BIO 3644311 <GO>}

Yes. So that's the second stock dividend that we've done in the last three years. It was, for the most part, well received by investors. And, in fact, the reason we did it was because a number of shareholders remarked that they were appreciative of the first one and asked if that was something we would consider doing again. It's a nice way to reward our longer-term shareholders. It gives them 10% more stock; and, basically, it gives them a 10% increase in the dividend.

But as you'll note, over the last five years or six years we have repatriated capital in a range of ways to our shareholders, not just increasing the dividend by way of stock dividend, but we've also increased the cash dividend several times. And don't hold me to this, but I believe that since we started declaring a dividend six years ago, it's about double today of what it was then. If you go back to 2007, we did issue a special one-time extraordinary cash dividend to our shareholders.

So I think that we have shown an ability to use a range of tools to repatriate capital to our shareholders, given the circumstance at the time; and I think that should give everyone comfort of our ability to continue doing that in the future.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Okay. Appreciate the thoughts. Thanks.

Operator

And this concludes our question-and-answer session. I'd like to turn the call back over to Mr. Mark Watson, President and CEO, for any closing remarks.

A - Mark E. Watson {BIO 1463509 <GO>}

I'd like to thank everyone for joining us on the call today. I wanted to end the call by thanking a colleague of mine who was the President of Rockwood for more years than I can remember. And he's only worked at Rockwood. He was there over 30 years. That's John Yediny. And he has both been mentor and friend and helped us build a terrific business in the United States; and his presence will be missed by all of us. And just wanted to say thank you to John for his dedication to Argo for a very long time.

Operator, that concludes our remarks, and we look forward to talking to you all again next quarter.

Operator

Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect. Have a great day.