S&P Global
Market Intelligence

James River Group Holdings, Ltd.
NasdaqGS:JRVR
FQ2 2019 Earnings Call Transcripts

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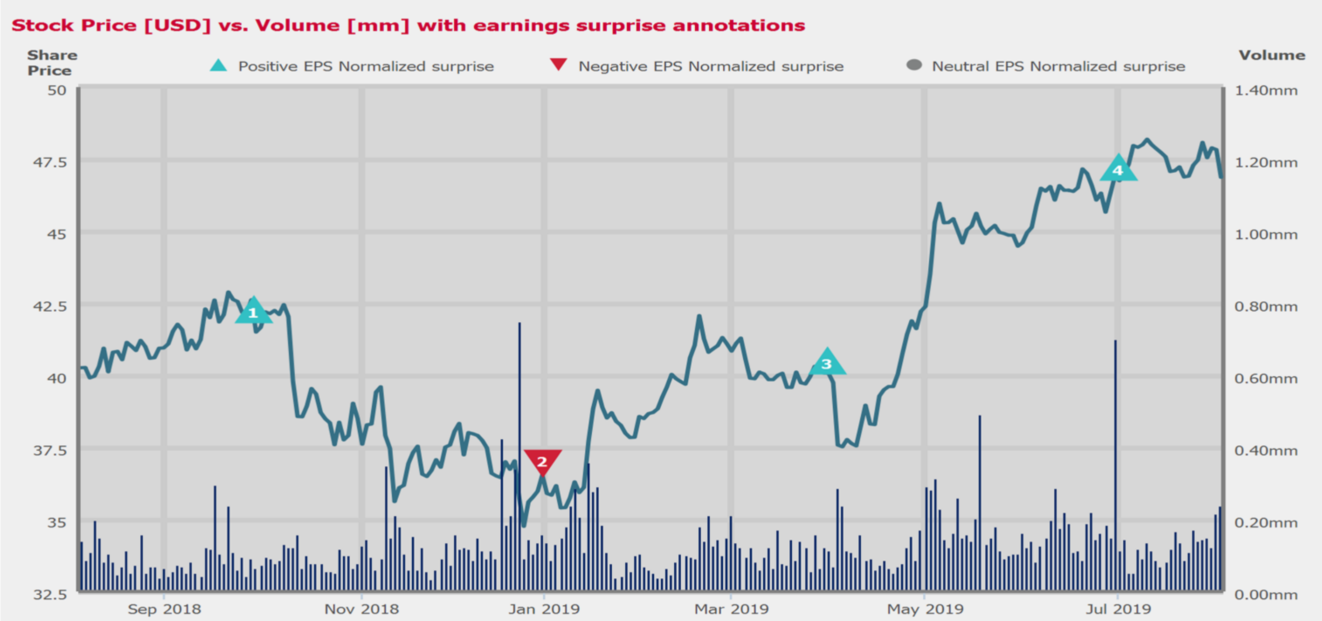
S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.63	0.66	4.76	0.65	2.70	2.81
Revenue (mm)	216.05	220.37	2.00	218.10	870.55	918.05

Currency: USD
Consensus as of Aug-01-2019 6:24 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.60	0.64	6.67 %
FQ4 2018	0.66	0.56	(15.15 %)
FQ1 2019	0.63	0.71	12.70 %
FQ2 2019	0.63	0.66	4.76 %

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Call Participants

EXECUTIVES

Jonathan Adam Abram
Chairman & CEO

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Robert Patrick Myron
President, COO & Director

Sarah Casey Doran
Chief Financial Officer

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Brian Robert Meredith
UBS Investment Bank, Research Division

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Randolph Binner
B. Riley FBR, Inc., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the James River Second Quarter 2019 Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Mr. Kevin Copeland, Head of Investor Relations. You may begin.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Thank you, Skyler. Good morning, everyone, and welcome to the James River Group Second Quarter 2019 Earnings Conference Call. During the call, we will be making forward-looking statements. These statements are based on current beliefs, intentions, expectations and assumptions that are subject to various risks and uncertainties, which may cause actual results to differ materially. For a discussion of such risks and uncertainties, please see the cautionary language regarding forward-looking statements in yesterday's earnings release and the Risk Factors section of our most recent Form 10-K, Form 10-Qs and other reports and filings we make with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

I will now turn the call over to Bob Myron, Chief Executive Officer of James River Group.

Robert Patrick Myron
President, COO & Director

Good morning, everyone, and welcome to James River's second quarter 2019 investor call. I'm Bob Myron, and with me today are Sarah Doran, our CFO; Kevin Copeland, our CIO and Head of Investor Relations; and Adam Abram, who's shortly going to take over the CEO role again as I move back into the COO role.

I'll spend some time today talking about our overall results for the quarter and also some specifics on each of our segments. I'll then turn the call over to Sarah and Adam, and they'll get to your questions. We had a very good second quarter and first 6 months of the year. Our underwriting results were strong with a 95.2% combined ratio across the group in the quarter. The highlight of the quarter is certainly our growth and pricing in our core E&S business. After a modest start in Q1, our growth in Q2 in core substantially exceeded our expectations with 81% growth in gross written premiums that we highlighted in our press release. Every division within our core E&S business segment grew, and we had $75 million of new business in core alone, which represented 49% of our core production in the quarter. Our group-wide expense ratio of 21.3% continued to decline in this market-leading as we continue to carefully manage expenses and get great leverage out of our franchise.

I am particularly pleased about growing tangible book value per share from $17.74 to $18.86 in the last 3 months, while at the same time, producing a great return on tangible equity and continuing to pay a dividend with a yield of about 2.5%. Let me now talk about each of our 3 segments individually.

In our largest segment, E&S submissions were up 20% in the quarter year-over-year, up from 17% in Q1. So submission flow continues to accelerate. This reflects the continued strong and growing U.S. economy; the excellent relationships we have with our whole brokers -- wholesale brokers; and lastly and most importantly, meaningful amounts of business flowing to us from other carriers in both the admitted market and the E&S market.

We're seeing other carriers do a variety of things, including not renewing accounts that have not performed well and/or have been underpriced -- underpriced, decreased line sizes and discontinue whole classes and lines of business. Pricing on renewals was up 5.4% in the quarter on our core E&S business. But like last quarter, the renewal pricing doesn't tell the whole story.

On new business, we are binding certain larger accounts with price increases that are 3 to 5x expiring pricing and oftentimes with higher deductibles or self-insured retentions as well. While the hardening market is broad, we are seeing the most traction in general casualty accounts, such as habitational risks, excess casualty across a number of different classes, manufacturers and contractors and energy. We are incredibly well positioned to capitalize on the current market conditions and we don't see it slowing down right now based upon preliminary indications of July production.

As I mentioned the last quarter, we have a large and growing underwriting staff in this segment that is turning through the large and growing submission volume. Our underwriting system is scalable and efficient. Also in the quarter, we saw loss trends in core E&S as being fairly benign as the dollar amount of reported losses are down relative to a year ago at this time, which is notable given that we have -- now have a larger book of business. So we definitely see our rate increases and the rate we're getting outpacing the loss trend.

Now a few comments about our Commercial Auto division within E&S. In the quarter, Commercial Auto grew 33% for gross written premiums, but only 3% for net written premiums due to the quota share reinsurance contract that we placed behind us on the majority of this business. During the quarter, changes in our reserve estimates resulted in approximately $25 million of loss reserves shifting from the 2018 accident year to the 2016 and '17 accident years. This was to address higher-than-expected loss emergence from the 2016 and 2017 accident years, while the 2018 accident year continues to run well and we feel good about where we're booking the 2019 accident year loss ratio in this line.

It's worth reiterating the size of the years in question from the net written premium standpoint. 2018 written premium in Commercial Auto was nearly as large as 2016 and 2017 were combined, and 2019 will again be as large as 2018 was. As we've mentioned in the past, we had a substantial rate increase in 2018 on our largest account in this line, and this price carried over to 2019. The change in reserve estimates between accident years caused the tax rate in the quarter to be higher than our run rate. I'll let Sarah elaborate in our prepared remarks on this.

When we look at the E&S segment, we are comfortable with our loss reserves. As we've said before, we are making higher accident year loss picks in our core E&S business in 2019 than we did in 2018 and 2017, even though we've had 9 consecutive quarters of rate increases, many of which have been above loss trends.

In our Specialty Admitted segment, our top line was down 8%, but I believe that this is temporary and we can and will resume growth in the future. The decline was principally from a 35% decrease in gross written premiums in our largest program, Atlas, year-over-year. This is due to rate declines in California workers' comp as well as writing a few less classes of business than we did a year ago, where such classes have not met our profitability expectation. The account continues to run very well, specifically in terms of loss emergence relative to our expectations.

In our individual risk workers' comp book, we grew our gross written premium by 25% in the quarter. Submissions were up 41% in individual risk Workers' Compensation business, which reflects strong agency relationships, continued economic growth and continued modest expansion into a few other states.

Rates were down about 7.8% in individual risk workers' comp, but loss cost continue to be benign and, as a result, we didn't see a decline in margin. This was because of new fronted deals that were not on -- I'm sorry, in our fronting division, outside of the Atlas relationship, we grew gross written premiums by 37%, this was because of new fronted deals that were not on the books a year ago.

We are continuing to grow, in both count and premium, other fronting transactions. As mentioned in our last quarterly call, in Q2, we wrote 2 new property transactions that we expect will deliver more than $2 million in fee income per annum. However, given when they incepted a natural [indiscernible], we didn't book much of these into fee income in Q2.

We also bound a new garage and car dealers program, effective July 1, that is expected to have an annual run rate of more than $50 million of gross written premium. Otherwise, the pipeline remains robust, and we have several other meaningful deals that we hope to bind in the coming months.

In our Casualty Re segment, we did have a modest amount of adverse development in the quarter from types and classes of reinsurance that the company no longer writes, which resulted in 100.3% combined ratio in the quarter. The top line continues to be in line with our expectations, with only a modest amount of growth for the year. The book is expected to be over 90% E&S casualty business in 2019, and we feel great about the business we have put on the books in the last several years.

We saw some meaningful price increases in the underlying business this quarter, just like we did in our core E&S segment. In Casualty Re, the underlying business saw rate increases of about 5.5%, and we got a 1.2% increase in reinsurance pricing. With that, let me turn the call over to Sarah.

Sarah Casey Doran
Chief Financial Officer

Thanks, Bob, and good morning, everyone. For the second quarter of 2019, we made strong underwriting profits of $9.6 million, generated an operating profit of $20.2 million, and we're reporting net income of $20.3 million. Our expense ratio of 21.3% is an improvement of 1.8 points from the prior year quarter. The improvement is due to mix and where we have concentrated our growth efforts this year.

Net earned premium grew almost 9% in our E&S segment this quarter, and premium in our third-party reinsurance business has continued to shrink. The E&S segment represented over 75% of our group net earned premiums. This proportion increased again from the sequential quarter. This segment has considerable scale and, this quarter, it also benefited from a reduced net commission expense from external reinsurance.

We continue to enjoy strong cash flow from our businesses as operating cash flow was $32.7 million this quarter and $68.1 million year-to-date. This is down year-over-year due to the shrinkage of our Casualty Re segment and the time lag as we earn in the most recent growth from our E&S segment in future quarters.

The investment portfolio performed as we expected this quarter as we earned $17.5 million in net investment income, an increase of 9% from the prior year quarter, largely in line with the growth of our portfolio. While this is down from the sequential quarter, the difference is due to the outperformance of our renewable energy and other private investment portfolios during the first quarter of this year. Those 2 parts of our portfolio are generally more susceptible to greater market volatility.

Once again, one of our strongest highlights is that we grew tangible equity per share before dividend, 8% from a quarter ago and 19.1% this year, while also delivering an annualized adjusted net operating return on average tangible equity of 15.7% year-to-date. We ended the quarter with tangible shareholders' equity of $572 million. Operating leverage, our trailing 12 months net premiums written to tangible equity, was 1.42 to 1, equals to where it was last quarter and down meaningfully from this time last year. Our ability to generate strong tangible book value growth and a high ROTE is very important to us and shows we have great opportunities to put our capital to work.

And finally, on taxes. Our effective tax rate for the quarter was 18.6%. As a reminder, our internal quota share treaty was not seeded to a U.S. taxpayer until January of 2018. This quarter, we had $25 million of favorable development from the 2018 accident year, which was largely offset by adverse development in the 2016 and 2017 years. As the internal quota share treaty was not seeded to a U.S. taxpayer in 2016 and '17, but was in 2018, this contributed to the increase in our effective tax rate. But at this time, we expect the 2019 rate to likely be close to the year-to-date range of 14.7%.

Lastly, I know I speak for my colleagues when I express my admiration and thanks for Bob's strategic insight, leadership and collaboration these last 18 months. He's led us on a path of success, and we look forward to more ahead, and we're very excited to welcome Adam back as our CEO. So with that, I'll turn over the call to Adam Abram for a few comments. Adam?

Jonathan Adam Abram
Chairman & CEO

Thank you, Sarah. Thank you, Bob. James River is a strong company with terrific leaders and people, and it has always been a joy to be a part of it. Bob and Sarah and the other leaders of our company have us in a great position. Our growth and our strong earnings reflect their scope of leadership. And I'd like to thank Bob for the wonderful job he's done as CEO over the last 18 months or so.

And Bob, Sarah and I have worked together before, it's a very comfortable and effective arrangement, and I'm looking forward to being back and more integral member of the team. As always, we're going to be focused on protecting our insured clients, growing the company while maintaining underwriting discipline, innovating to adapt to a changing economy and continuing to deliver strong returns on equity for our shareholders. And with that, I think we're ready for your questions. Thank you, everybody.
Operator, could you please open the lines for questions? Thank you.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Randy Binner with B. Riley FBR.

Randolph Binner
B. Riley FBR, Inc., Research Division

I wanted to ask a couple about the commercial auto book to start. So with the adverse development in the prior accident years, so '16 and '17, can you characterize kind of what changed from a claims management perspective that caused the revision?

Robert Patrick Myron
President, COO & Director

Yes. I don't think that there was a lot that changed, Randy. I think we just had, in the quarter, we had higher-than-expected loss emergence. I think in 2016, it was from places where we've had it before and with an emphasis on Florida. And I think 2017, it was just a little bit broader and so it really wasn't -- it really wasn't any more than that. I think that it's important to emphasize, like I did in the prepared remarks, that we do have a substantially increased pricing on the '18 and '19 years, which are combined total about $600 million, and expect to build up the $600 million in net written premium. So when we look at the aggregate performance of the Commercial Auto book, we feel fine.

Randolph Binner
B. Riley FBR, Inc., Research Division

And then on the loss pick for Commercial Auto, I think if we look at E&S, the core E&S business has kind of seen higher loss picks, in general, to reflect the risk reward around that environment and then I presume that Uber pick is lower. Can you size -- is that correct and can you size kind of the change in the loss pick around the Commercial Auto book in 2019?

Sarah Casey Doran
Chief Financial Officer

No, our -- we still have our original pick up there and it's commensurately higher than certainly where '18 is right now, Randy. So we have a fair amount of, we think, conservatism in that loss pick obviously adjusting for what Bob has said in terms of pricing, the pricing increase that we got beginning in 2018.

Randolph Binner
B. Riley FBR, Inc., Research Division

Okay. And then I just had one on the investment income, understanding that the -- I guess the alternatives were kind of within their normal band of volatility in the quarter. But on the core fixed income book. Where -- I guess where are you seeing new money yields and how are -- we're seeing a lot -- I cover a lot of insurance companies, and we're seeing a lot of yield pressure obviously in what can be deployed. So where is that for you all now and where do you expect to be able to put money to work in 2019?

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Randy, it's Kevin here. So yes, we've seen an increase in the net investment income from that core portfolio, and that's really due to growth in the size of the portfolio, rather than changing yields. But to answer your question, market yields are about 40 basis points below our average book yield right now. So the duration of the portfolio is about 3.5 years, so that will -- if rates stay where they are now, it will kind of slowly work its way into the portfolio as we reinvest maturities.

Randolph Binner

B. Riley FBR, Inc., Research Division

And then just from a new money yield perspective, do you have a blended core fixed income new money yield as of today?

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Just for the core book?

Randolph Binner
B. Riley FBR, Inc., Research Division

Yes.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

I don't have that -- I don't have that number, but I can tell you, it's about 40 to 45 basis points lower than what we have right now. We'll follow that one up -- we'll probably follow that up with you. Sure.

Operator

Our next question comes from Matthew Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a follow-up on Randy's Commercial Auto question. Any chance you can give us, after all the moving pieces at June 30, where Commercial Auto accident year developed loss picks are, '16 through '19, so we can get a feel for the progression?

Robert Patrick Myron
President, COO & Director

Yes, Matt, that's not something that we -- that's not something that we've broken out sort of quarter-by-quarter. Just because a lot of it relates to, among other things, a particular client. But no, we -- it's not something that we've broken out from a -- this quarter standpoint.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. I'll shift to Casualty Re. So if I look at that segment, the accident year results have improved substantially, low-90s combined ratio, since you got out of those new lines of business, kind of risk you aren't writing anymore, a little while back. But we keep taking small level of average development on those risks. So my question is, can you help us get a feel for where you believe we are in the tail of those older risks that we keep taking development on and when we might be able to expect that they're substantially kind of developed?

Robert Patrick Myron
President, COO & Director

Yes. So it's been several years since we moved -- moved the book substantially to more excess and surplus lines, general liability and proportional, and I think where we've seen some of this adverse development was on when we had a larger proportion of the book in our excess treaties, and where we had a little bit of more traditional Commercial Auto in there and some nonstandard auto business as well. And at this point in time, that's a few years behind us, and so we're seeing very good trends in our loss of merchants from the more recent years. So it feels like we're pretty far along on that, to be honest with you.

I think that from a practical standpoint, unfortunately, sometimes what you get is the reported loss from 2012 and 2013 on the excess book. And that claim, you sort of had -- didn't have a provisional notice of loss of and it's a material amount. And you don't have much IBNR up on that year or that line of business for that specific treaty, and you have to react to it, right? But I think -- and excess is naturally going to have a longer tail than the proportional stuff does. And so -- but it's been -- where -- this is several years behind us now, and we feel much, much better about the more recent years, in particular, the structure of them being -- the line of business, the fact that they're -- so much of it is proportional and just the stability we're seeing in the underlying loss of merchants.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then one more, if I can, just on capital. How do you feel about your capital position? And I asked this in light of kind of how you characterize stronger-than-expected growth in core E&S, it seems like it's continuing and kind of the -- as you described, the puzzle pieces in place that I don't think we should expect it to abate in the near term. Do you feel that you have kind of the capital to support that growth or is it a little tighter?

Sarah Casey Doran
Chief Financial Officer

No. It's a -- thank you for asking that question. We feel really good about our capital position. As you know, we had to pause the special dividend a little while ago, and moving our operating leverage to 1.4x gives us a lot of room to run in terms of supporting the growth in core E&S. So as we earn that in and as we look ahead and see very strong conditions in that business, at least in the immediacy, we think we're really well positioned to keep doing that. Right now, within our E&S segment, it's 60% core and 40% Commercial Auto. We ended the year of 2018, 50-50, so we're here to take advantage of that market and to ideally just reduce our reliance on Commercial Auto as well.

Operator

Our next question comes from Mark Hughes with SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

On the growth in the core book, I wonder if you could talk about your success. Submissions were up 20%. Clearly, your hit rate was a lot better. Could you talk about your capacity to effectively underwrite that much more new business and maybe touch on average policy size, were you finding success moving up market a little bit, perhaps?

Robert Patrick Myron
President, COO & Director

Yes, that's a great question. And so yes, I think the hit ratios are up a little bit. The other thing is that the average premium size is up a little bit as well. I think we're -- when I looked at the report, we're around 23,000, and we've sort of been around '19 or '20 or '21 or so. And so that's up -- that is up 15 -- 10% to 15% or so mark and that definitely is being driven by the fact that we are seeing some larger accounts and that we are -- are often times, we're doing a lot of individual pricing work on, and I think we're getting very, very good pricing relative to the underlying expected loss cost and then the technical pricing level. What do we work up when we do the actual work up on those individual accounts.

So I think it's a -- renewal retentions are holding, hit rate ratio and new is improving a bit. And the average account size is going up a little bit, but we are perfectly comfortable with it because we're not writing anything that we don't have expertise in to be able to do, and we are still only -- even if it's a larger account, we're still only taking $1 million net, basically, whether that's the policy limited effect or whether we're reinsuring down to that level of the excess treaties that we have in place.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Is there more property in the recent growth?

Robert Patrick Myron
President, COO & Director

We have seen a little bit of growth in property and we've also seen pricing increases in property as well. I think they've grown that little bit -- book a little bit because as a lot of -- we don't have a big book of that. I mean it's approximately -- the run rate on that is approximately $15 million or $20 million, and it's excess only. I think as we've seen capacity shortages across the competitive landscape, our team has stepped into that a little bit more and written a little bit more of that. And we've also seen pricing increases there of, sort of, 10-ish, so to speak. So meaningfully higher on renewals, higher than it was -- has been on our Casualty business.

So they have written a little bit more of that. I think the last thing, though, that I would say is that we heavily reinsured that business, just a reminder to everybody. We have -- we buy facultative reinsurance, we have a surplus share treaty in place, and then of course, we have a very -- a catastrophe treaty that reinsures that to a very high-return period. So they're being opportunistic there and -- but I don't think it's adding a tremendous amount of additional volatility to us.

Sarah Casey Doran
Chief Financial Officer

No, the only thing I'd add to that is it's growing, and it's growing, but it's in proportion to the rest of the book. So it's not outweighing the mix in the E&S book. So...

Robert Patrick Myron
President, COO & Director

Yes. Right, that's right, that's a very good point.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Understood. A final question on the reinsurance segment. Just longer term, what should we think about your posture there? If you're seeing very good growth in E&S and maybe you want some more capital? What's your latest thinking about what to do with reinsurance?

Robert Patrick Myron
President, COO & Director

Are you talking about from a production and/or growth perspective? Is that what you're getting at?

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Or the opposite, perhaps? Yes.

Robert Patrick Myron
President, COO & Director

Yes. I think no real plans for any significant change there, right? We still only expect to be flat or grow modestly in core -- in our Casualty Re segment. And we like the underlying terms and conditions, we like the pricing. But as I'm sure you know, this business, on a planned basis, on a budgeted basis, generally has the highest expected combined ratio in the group, right? So we don't -- our team is doing a great job. They're actually being -- they're getting lots of swings and a lot of different opportunities and really carefully picking their spots. I don't -- but because of the fact that we have an expectation of writing to a lower combined ratio in the 2 U.S. segments. That's where we're focusing our capital. We don't have an expectation right now of strategically shrinking the Casualty Re book of business right now. We're just trying to grow in the U.S. and hold steady, hold firm on Casualty Re.

Sarah Casey Doran
Chief Financial Officer

Having shrunk it all that in the last [indiscernible]. Like -- yes.

Robert Patrick Myron
President, COO & Director

Yes.

Operator

Our next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I'm going to start by wishing Bob the best and saying, Adam, glad you back. Sorry, this is why.

Bob, can you talk a little bit about the claims staffing strategy, given the really strong growth we're seeing in E&S?

Robert Patrick Myron
President, COO & Director

Yes, absolutely. We've significant -- first of all, we've significantly increased underwriting head count in the last 6 months in our various offices, I sort of rolled through it in last quarter's prepared remarks, we have underwriters in Richmond, Virginia, outside of Atlanta and Alpharetta, Georgia and Scottsdale, Arizona. We have some people working in, remotely, from home. We may be shortly having a person or 2 in Houston. And so we are actively looking to -- we've hired a lot, and we're actively looking to hire more underwriting staff to continue to turn through the submission growth. And then I think from a claims perspective, we feel like with the -- I'll start with core. Someone is asking a good question the other day about this. With a lot of core growth, you don't necessarily see a -- with core E&S growth, given that it's generally higher severity, lower frequency, you don't see a big and immediate need in claims staffing, but we do have about 40 people who handle core claims and then there's about 300 folks that handle the Commercial Auto claims. And I think we feel that both of those are well staffed right now. And particularly -- and also because we've had, of course, a mild state decline with our largest client. And so I think we feel very well staffed to handle volume of underwriting submissions as well as claims. And Sarah, is there anything you would add to that?

Sarah Casey Doran
Chief Financial Officer

No. That's very comprehensive. That's great.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Yes, that's helpful. That's what I was looking for. Two quick questions for Sarah, if I can. One, so in general, I guess, before this quarter, there was the expectation that the tax rate would slowly drift up sort of year-after-year as less -- premium-less asset flow or small assets flowed to Bermuda. Should we assume that this -- that the 2019 tax rate is a little above average, so that 2020 should be a little bit lower?

Sarah Casey Doran
Chief Financial Officer

That would be my assumption Meyer, thank you for the question, being above average because of the reserve move that we mentioned. So I think of a low single-digit -- low double-digit tax rate absent these moves. So if that picks up slightly, that would still be kind of behind a mid-teens tax rate. So we're a little bit ahead of that. I would expect that to be lower in future years absent these changes.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Fantastic. And then finally, within Casualty Reinsurance. So we have the net reserve development, I'm wondering, are there any offsetting leases on more recent accident years or is the net number really all that you're seeing?

Sarah Casey Doran
Chief Financial Officer

No, we had some offsets on that as well in some of the more seniors in Casualty Re, but there...

Robert Patrick Myron
President, COO & Director

All of that was modest.

Sarah Casey Doran
Chief Financial Officer

Yes. But there was -- I was just going to say, there wasn't much in terms of that, but it wasn't just the adverse number.

Operator

[Operator Instructions] Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here for you. Sarah, I'm just curious, could -- going back to the Commercial Auto adverse reserve development, is it possible to give us what the adverse development was in the '16 and '17 year and then the favorable on the '18 year?

Robert Patrick Myron
President, COO & Director

Well the favorable in the '18 year was the [25] that I mentioned, and then that got allocated to '16 and '17, and then the majority of it went to '17.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you, majority '17. Great. And then my next question, just curious, as the mix of business shifts within your E&S segment to more and more of your core business, is that what we should see kind of driving your, call it, underlying combined ratios down? And I could imagine your core E&S carries a better underwriting margin than the Commercial Auto business.

Sarah Casey Doran
Chief Financial Officer

That's fair. Yes, Brian.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then also within that, should we also expect maybe sort of loss ratios trending downwards or expense ratios will probably kind of stabilize a little bit or move up?

Sarah Casey Doran
Chief Financial Officer

I think that's pretty reasonable. I'm not seeing a reason for them to move up right now, but it is -- there is more expense on the core business and there is in the Commercial Auto business.

Operator

And at this time, I'm showing no further questions. I'd like to turn the call back over to Bob Myron for any closing remarks.

Robert Patrick Myron
President, COO & Director

Well, thank you, everyone, for your participation today, and we look forward to talking to you again next quarter.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.