S&P Global
Market Intelligence

James River Group Holdings, Ltd. NasdaqGS:JRVR

FQ2 2020 Earnings Call Transcripts

Thursday, July 30, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.46	0.56	▲21.74	0.50	1.94	2.44
Revenue (mm)	178.30	186.75	▲4.74	180.50	653.40	713.55

Currency: USD
Consensus as of Jul-30-2020 2:10 AM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	(0.92)	(0.73)	NM
FQ4 2019	0.81	0.76	▼1 (6.17 %)
FQ1 2020	0.50	0.50	●2 0.00 %
FQ2 2020	0.46	0.56	▲3 21.74 %

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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

ANALYSTS

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

Ronald David Bobman
Capital Returns Management, LLC

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the James River Group Q2 2020 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Kevin Copeland, Head of Investor Relations. Please go ahead, sir.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Thank you, Tiffany. Good morning, everyone, and welcome to the James River Group Second Quarter 2020 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 and 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 Adam Abram, Chairman and Chief Executive Officer of James River Group.

Jonathan Adam Abram
Chairman & CEO

Thank you very much, Kevin, and good morning, everyone, and welcome to our second quarter conference call. I'm joined here this morning by Sarah Doran, our Chief Financial Officer; and Bob Myron, our President and Chief Operating Officer. And as is our usual way, we'll -- Sarah and I will both have a few comments, and then all 3 of us would enjoy answering any questions that you may have.

A number of things seem worth mentioning and pointing out from my perspective. First, our returns are strong. We're reporting a group combined ratio of 95%. Our return on tangible equity this quarter was 12.9% and 12% for the 6 months. By our calculation, an investor in our IPO has enjoyed a 22.3% internal rate of return, including dividends, from our IPO in December of 2014 through the middle of last week.

Our tangible book value per share grew 14.9% during the quarter. Our prospects, I think, are excellent. Our E&S segment grew gross written premiums by 18% for the quarter and 25% for the 6 months. Our in-force policy count in Core E&S grew by 28% from June 2019 to this past June. We had a 16% increase in submissions in E&S during the first half of the year. 10 of our 12 E&S divisions had increased submission flow and the trend of greater submissions continues early in the third quarter.

While we are growing, we're not changing our mix dramatically, and I think that's important. Average premiums remain in the low $20,000 level. And year-to-date, 9 of 12 divisions within E&S have grown. For the quarter just ended June 30, that was the 14th consecutive quarter in which we had rate increases in Core E&S. The pace of rate increases is accelerating. In the first quarter, we reported a 13% rate increase on renewal policies. In this most recent quarter, our E&S team achieved a 20% increase on renewal policies.

Turning to our Specialty Admitted book. It's performing very well. The segment reported a combined ratio of 90.1% for the second quarter and 98.4% for the first 6 months of the year. And during the first half of the year, our Specialty Admitted segment has signed new fronting deals that we expect will generate annual premiums of approximately $100 million and annual fees of about $6 million. So we're making steady progress on building a highly diversified book of fee income producing programs that will earn in over the next year.

One of the things that we all pay a lot of attention to is the strength of our balance sheet, and I believe that our balance sheet strength is increasing quarter-over-quarter. Our loss and LAE ratio in Core Excess and Surplus Lines, for the 15 years, 2003 through 2018, is 57.1%. We are currently writing more of this business than in any previous year at better rates than at any time in our past, and we're booking our current year at 65.7%.

I know that the runoff of our large commercial account is always a matter that has gotten some attention in recent quarters, and that's proceeding well. We closed an additional 15% of the claims associated with the canceled Rasier account during the quarter, and that means that we've closed approximately 40% of the claims that were outstanding at the time we stopped writing the account. We continue to expect it will take 2 to 3 years to complete the runoff of the book, but we're pleased with the pace and claims are being resolved at cost within our expectations.

The claims environment in general is relatively benign, and that, combined with what we're seeing in rates, is a really powerful combination. Claims frequency in our E&S book is down 21.4% in the second quarter compared to a year ago and down 19.2% in our Specialty Admitted segment. We have no compensable COVID-19 claims reported in our E&S unit or in our reinsurance segment. And as we talked about in our last call, the classes of E&S business we write as well as our policy language and structure insulate us against liability for COVID claims.

In our Specialty Admitted segment, our individual risk Workers' Compensation book has received 4 COVID claims, one of which was compensable, and we had a net obligation of $750 on that claim. We do write Workers' Compensation policies on our fronted business under the Specialty Admitted segment. And to date, we've had approximately 55 COVID-19 claims from this program unit. However, our retentions are low. And they're between 11% and 20% of the first $1 million per recurrence. And so our maximum liability is $110,000 to $200,000 per claim. To date, our average total net incurred for the few COVID claims we've had is less than $13,000 per claim. And we just don't currently expect the net liabilities from COVID-19 to be material to us.

Our reinsurance segment suffers from a lack of scale, but it contributes to the overall profitability, relatively small amounts of adverse development from prior years when our book was larger, overwhelmed a profitable underwriting in the much smaller book we write there today. The book we write in Bermuda today is overwhelmingly E&S casualty with good margins. However, we have allocated less capital to our reinsurance unit than to our primary segments because of the outsized opportunity available in our primary segments. Consequently, movements in prior year development in reinsurance can cause losses in the current year underwriting process there.

Looking forward, I think the momentum of the first half of the year is shaping up to continue. And our plan is to stick to our plan to continue to write business we understand at prices we expect to produce material underwriting margin. We're focused on increasing our fee business and expect those fees to become a larger contributor to our margin over the next 12 months. We recognize, at the same time, the seeming disconnect between the many leading economic indicators, so unemployment, for example, and our expanding business, still we don't see slow -- signs of a slowdown in our business. We think the general E&S market is expanding as Admitted markets retreat from more classes of business and pricing is definitely increasing as a reaction to prior year losses in the industry and low prevailing market rates of interest.

And so with that, if I could turn to Sarah to add her reflections on the quarter and the first half of the year. Sarah?

Sarah Casey Doran
Chief Financial Officer

Thanks, Adam. Let me highlight a few of the financial points from the quarter. Last night, we reported first quarter operating earnings of $0.56 per share and annualized adjusted net operating return on average tangible equity for the first half of the year is 12%. It was a very strong quarter and first half of the year, as Adam has noted.

Let me jump right into investments. Our portfolio has recovered meaningfully since March 31 with a total return of 4.3% for the quarter, excluding our restricted cash balance and private investments. Our fixed maturity investment portfolio had unrealized gains of $53.5 million, while the bank loan portfolio had unrealized gains of $26.6 million, offset partially by realized losses of $9.4 million incurred on the sale of approximately 40% of our senior secured bank loan portfolio.

As we mentioned in April, we made the decision to meaningfully reduce our exposure to bank loans by selling into the rally in this asset class as we look to tamp down our volatility. Given the current low-yield environment, we expect net investment income to be at similar levels as this quarter throughout the year.

Moving on from investments. This quarter, we posted a loss ratio of 66.4% and accident year loss ratio of 65.6%, largely in line with the first quarter of this year despite powerful rate increases, low loss immersions and meaningfully reduced claims frequency. As Adam highlighted, the Core E&S renewal rate increases we have benefited from for over 3 years now accelerated to 20% this quarter, and reported losses have remained benign for multiple quarters, again this quarter. Core E&S makes up approximately 70% of the company's net written premiums and close to half of our net reserves.

As Adam mentioned, we've received COVID-related claims, but given our policies and exclusions and ongoing review of these claims, we did not put up an additional indemnity estimate related to COVID for the quarter. The runoff of what was formerly our largest account continues to perform within our expectations. At the end of the first half of the year, open claims for all years of the account represented a little bit less than 3% of the total reported claims for this account. At the end of the fourth quarter of 2019, I had reported to you that at that point, open claims for all years of the account represented over 5% of reported claims. Of our approximately $1.3 billion of total group-wide net loss reserves at quarter end, approximately $300 million supports this runoff block of business.

This quarter, we had $2.8 million of favorable development from E&S, most of which came from our Core E&S business. We had adverse development of about $5 million in our casualty reinsurance book. The development was concentrated in a few treaties related to general liability and commercial auto business, much of which we no longer write. We also had $1 million of favorable reserve development from our individual risk Workers' Compensation book. As a reminder, our internal reserving processes are identical each quarter, and we don't include any expectations of developments in our planning thoughts.

And last but not least, expenses. The expense ratio decreased to 28.6% this quarter from 34.2% in the first quarter of this year. We have been working to reduce expenses and gain efficiency and as part of that, reduced personnel during the quarter in areas where we were overstaffed. Also included in the quarter was a onetime reversal of an accrual, which had the impact of increasing fee income, lowering expenses. All that said, we continue to expect that our expense ratio for the full year will be in the low 30s, an improvement from the first quarter.

With that, I'll hand it back to Adam.

Jonathan Adam Abram
Chairman & CEO

Thank you, Sarah. And before we take your questions, which we're eager to get to, I just would like to have a little shout out, if I might, to the employees and colleagues all around James River who have been working remotely since March and doing a really terrific job. And we're aware of all the strengths that remote working calls for everybody in America who's doing it right now, but we're thinking about all of our employees who are home with children and working on school arrangements and nonetheless, generating more policies, more premium, more underwriting, more claims handling, while they do it, and it's a remarkable feat and we're thinking about them, fortunately, for us right now.

As far at our last report, only one of our 800-plus or approximately 800 employees had tested positive for COVID. So we're thankful for that, too. And we're mindful of everybody's health and very grateful for the team work that's going forth and very proud of all of our colleagues. So I wanted to say that to anybody who might be listening.
Thank you. So let's open up for questions. Operator, can you help us?

Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Adam, you mentioned in your opening comments about kind of where historically, your Core E&S business is running a loss ratio and then how you're picking it a bit more conservatively today. Can you give us a little bit of color or how you guys think about kind of the timing or the -- how long you typically wait and kind of let those years develop before you might take -- kind of take a look at that loss ratio with regard to -- if things are going the right way, book to bring that 65% down towards a more historical level?

Jonathan Adam Abram
Chairman & CEO

We look at our reserves every quarter, and we're careful about it. It's just that I -- honestly, our culture is not to declare victory early. And so it's not a specific amount of time that has to pass, but it's the overall facts and circumstances, at least with a conservative view, about what might arise that cause us to bring it down.

So generally, we're waiting, depending on -- and it also depends on that -- on the line of business. So I don't want to give you a date. But I want to say that our approach is to try to be careful and conservative to not put ourselves in a position where we face later weakness, but to play from strength. And I think one thing I would like to say is that -- I would say is I believe that, as I mentioned, we're building quite a bit of strength in the balance sheet today. And that's a position that we enjoy being in.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then just a couple of others. One is on -- could you comment a little bit just on what you saw in the quarter in terms of -- lot of other companies have noticed kind of reduced claim frequencies, a lot driven by the current situation we're in. But I'd be curious what you saw across your book, both the core book as well as with respect to the runoff commercial auto book, if kind of the -- what's going on in the economy and otherwise, is helping the situation there?

Jonathan Adam Abram
Chairman & CEO

Well, I think there are 2 things going on simultaneously. I mentioned that we had closed 15% of the claims that were outstanding and we closed in the discontinued commercial auto book during the most recent quarter, and that follows having closed 25% in the first quarter. And I definitely think that pace is faster than we expected, but we're not -- again, I don't want to declare victory early there. So we're still anticipating a 2- to 3-year runoff of that book.

In general, as I mentioned, 20-plus percent decline in claims frequency in both our Core E&S book and our Specialty Admitted book, and I think that is clearly the result of kind of suppressed activity in the -- people are at home more and restaurants are having takeout, and all of those things that we all know about that are slowing activity are slowing claims. And yet that is happening at a time when rates are rising because of a lack of capacity in the market and because of inadequate pricing by large parts of the market for many, many years and the withdrawal of the largest E&S writer from much of the E&S business and Admitted companies leaving the E&S market. So we're having depressed claims, increasing rates and yet, we're holding very high. I don't want to say overly high, but we're holding conservative reserve positions. So I think it's a vortex, and it's a very positive one for us right now. The winds are blowing in our favor.

Matthew John Carletti
JMP Securities LLC, Research Division

Sure. One last numbers question on the -- only a few million, but the adverse development in the casualty segment. If I recall correctly, the kind of ongoing development we've had there has really related to a small handful of lines and older accident years that you guys have exited a while ago. And I was hoping you might be able to just kind of frame that in terms of what's the reserve base left there? Kind of where are we in the maturing of those lines of business that you've largely gotten out of? Kind of how much more we have to go is kind of the question?

Jonathan Adam Abram
Chairman & CEO

Well, I'm going to ask Sarah to jump in here. But in general, look, these -- you're exactly right. These are policies from long ago. And if you're talking -- you're talking about the Casualty Re segment, I just wanted to make sure that, that's correct?

Matthew John Carletti
JMP Securities LLC, Research Division

Yes.

Jonathan Adam Abram
Chairman & CEO

Yes, that's where you're going. Okay. These are policies from long ago and later risings. And so they are -- they come up as a little bit of a surprise. We also have shrunk the book in Casualty Re. It's a very profitable E&S quota share book that we're writing there, and it's underwritten very well by our leadership there. But it's a small book. And so a relatively small claim from an older year where we had a lot of premium -- we had a lot more premium can overwhelm the current year results.

But overall, we see that trailing off. And the other thing I would say is that if I -- and we do, we look very carefully at our entire reinsurance arrangement. And over the years, historically, our Bermuda operation has generated about a year's worth of income for net income for our shareholders.

Sarah Casey Doran
Chief Financial Officer

Right. And Adam is referencing kind of the benefits of our overall structure that has added kind of income that's not obvious to be attributed specifically to the underwriting operations of the Casualty Reinsurance business over time. Just in thinking about that kind of additional year's worth of income, so to speak.

The other thing I'd add is a fair amount of the adverse development this year was, as Adam said, due to business that -- treaties that we no longer write. Some of it was business that's continued, that has been profitable for us as well and looks to be profitable in later years. So I think there are 2 parts of the story there. But definitely, a decent part of it is stuff that we're no longer on. So as Adam said, really, the theme here is it is difficult to manage a book that is much smaller than it was 2 years ago. So some of that is what you're seeing in the movement of the numbers.

We are pretty stable at the amount of writings that we have in there and that we've had in over -- in that business for the last 2 years. As Adam said in his opening comments, we've allocated our capital more to our primary businesses, just given the opportunity there. So I think the overall level of writings, where we are now, where we've been for the last year or so, is pretty stable with regard to those segments.

Operator

Your next question comes from the line of Mark Hughes with SunTrust.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Of the $100 million you described as new business in Specialty Admitted, did any of that show up in 2Q or is that on the comp?

Jonathan Adam Abram
Chairman & CEO

It's almost all on the comp.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Okay. The loss at -- the current accident year losses in Specialty Admitted is 80% this quarter, 82% that quarter -- last quarter. Were those elevated? Or is this the right run rate on a go-forward?

Sarah Casey Doran
Chief Financial Officer

That's the right run -- sorry, Mark, run rate for where we are right now. Obviously, a big part of that book is the Workers' Comp that we write there.

Jonathan Adam Abram
Chairman & CEO

And then the expense rate -- please go ahead.

Robert Patrick Myron
President, COO & Director

Yes, Mark. It's Bob Myron. Just -- it's worth mentioning that with respect to Specialty Admitted Workers' Compensation, for our individual risk Workers' Compensation business, we moved the quota share for that business from 50% to 70% on January 1. As a result -- and we like the ceding commission that we're getting paid for that. But in terms of the net loss ratio that we're booking there, we -- that number is elevated relative to, say, 2019 because we have to include 100% of the UA, right, and affect our overhead and claims handling costs and the like for that line of business. So the loss ratio went up, but then we're getting -- we're having more ceding commission come back through as a reduction to the expense ratio. So there's a little bit of a technical reason for why that loss pick has increased and why it seems high.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then to that point, your expense ratio was low this quarter. I assume that included some of the reversal you mentioned, Sarah. What should the normal expense ratio be in that business, at least for the near term?

Sarah Casey Doran
Chief Financial Officer

Yes. Yes. Thank you for asking that question. And that is the big delta this quarter, Mark. And last quarter, we had a delta on the other side. So I think the normalized -- what I'm thinking about as a normalized expense ratio for that business is in the low to mid-20s.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then the -- in the E&S segment, the ceded premium ratio has been kind of in the low 30s, 32% last couple of quarters. I think if I understand it properly, you've had a little more growth in Excess and property where you cede a bit more. What's the mix of Excess now relative to that overall segment? And then, what should the ceded premium ratio look like going forward?

Sarah Casey Doran
Chief Financial Officer

Yes. I think -- I will admit and not really admit, but that business is by design, it's going to be lumpy. We've seen a great opportunity to grow the Excess Casualty book and have done that really, really well for many quarters. This quarter, that was the book that grew the most within Core E&S, and it's been that way in other quarters. So that's causing the delta, and that's a little bit situational. We're going to take advantage of that as it sits in front of us. I would say that right now, that book, at least for the quarter, is a little bit more than 25% of the overall Core E&S book. And I don't have a reason to think that, that's going to change significantly by the end of the year, although again, episodic. So I would think that, that ceded ratio would be pretty stable. That's about where it was in the first quarter as well.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Low 30s?

Sarah Casey Doran
Chief Financial Officer

That's right. Yes, kind of low, early 30s, yes.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

What is the kind of the tax situation now with, I think, a number of moving parts, as you point out as your overall profitability is helped by the Casualty Re, which helps restrain taxes? What should we think about taxes for, say, the back half, going into the next year?

Sarah Casey Doran
Chief Financial Officer

Well, a lot of assumptions obviously go into the tax rate. I think about it from a practical perspective as being in the low teens for this year. So a bit -- said it different way, it was 10% for the quarter. I think that, that being a little bit higher than that for the balance of the year.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Right. When we think about the growth in 3Q, you mentioned that the trend in submission -- strong submissions would continue early into 3Q. I think as I understand that the business would have been a little bit tougher early in the quarter with some strength building as we got into June. I think your 18% growth, you were comping against 81% growth, if I remember properly in the second quarter of last year. How do we think about these growth dynamics, all these moving parts going into 3Q? Hard to give the -- I know you don't give projections in that way, but also a lot of moving parts. Any just kind of rough thoughts you might have around the growth picture late in Q2 and early in Q3?

Jonathan Adam Abram
Chairman & CEO

Yes. I think right now, we're feeling that the growth that we've experienced in the first and second quarter continues early. And of course, it's early days into the third quarter. So -- plus, we're adding in the Specialty Admitted. I think we'll see some of the $100 million I referred to in the fee income associated with it slowly begin to filter its way into the second half of the year. But in the E&S side of the business, I think we're feeling that it's steady, and our growth rate is not threatened by events. And indeed, we see that we continue to have pricing opportunities, and we continue to have a really good flow of business.

One thing I haven't mentioned yet is we are also seeing improvements in our efficiency. And this is another reason to commend our employees who are working so hard. But the throughput and the buildup of policies in force over time, over the first half of the year, and this is supported, by the way, by a superb effort on the part of our IT team who not only got us remote, but at the same time, started introducing new technologies to speed the throughput of applications so that our underwriters can more efficiently look at more applications for insurance and to quote them faster. For example, in our small business unit, I think I'll be within a point or 2, if you allow me a little range here. But I think that our throughput there is about 26% higher than it was a year ago because of new technology introduced by our IT group and supported by our underwriting group. And that's being rolled out. Similar technology is being rolled out to other divisions within the E&S space.

So we're becoming more efficient. We're seeing more applications, we're -- we've got better rate. I don't see any sign that the rate is decreasing and some signs that the strength continues. And so without predicting what it will be, I'm just saying I feel pretty good about the second half of the year, as I sit here today. And I think our whole team does.

Operator

Your next question comes from the line of Randy Binner with B. Riley.

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

I guess the observation I have is that your -- so the top line, it's growing a lot in Core E&S, but it's coming down overall, and the business is increasingly profitable. So your operating leverage is decreasing quite a bit on a forward basis. And so I guess, how do you think about that? Can you fill up that operating leverage with underwriting? Or can there be a thought that perhaps you'd return to kind of a higher level of capital return?

Sarah Casey Doran
Chief Financial Officer

We -- I'll take that first, and I'm happy to have my colleagues jump in. We are doing everything that we can to take advantage of this great opportunity that we have, especially in Core E&S and writing is much good and profitable business is coming across the transom and that's a lot. So that is our #1 goal. I think we have more than enough capital to do it. And certainly, I think you've known us -- I know, you've known us for a while, Randy, if we -- if -- seems like we don't have enough opportunities, we'll be judicious in returning that capital. But right now, we're trying to put as much of that to work as possible, and we think we've got a great opportunity in front of us to do it in a good runway.

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

Okay. The other question I have is it's a little bit -- maybe it's philosophical or it's high level, but -- so I agree that this environment looks good from a hard market perspective for all the reasons you've laid out. But since the early days, which was truly a hard market, there's been a few kind of full starts where we thought because of low interest rates or whatever the issue was, that pricing was going to firm and then all the capital in the world came into the insurance market and kind of ruin the party. And so my question is, why is this feeling different? Because I feel different about it. But yes, I'm curious, your comments seem to me to be saying, we think there's a sustainably firmer market here. Why is this out of all start everything we're seeing in the current environment as it relates to a hard pricing environment?

Jonathan Adam Abram
Chairman & CEO

Randy, you are a very good student of the market. And if I begin like you sometimes with thinking about the history, and the first piece of history that I'd bring to this examination or this analysis is we've had 14 quarters in a row of rate increases. And then if you read about what some very large E&S players are doing in terms of resetting their capital positions and restricting their writings right now because they're attending to other problems that they have. The largest E&S market in the country is retrenching and that is continuing. And that is opening up new opportunities for us.

And then the admitted market is continuing to discourage large books of business, which are classic E&S writes that we write. And so I think we're about a year into this and 14 months as we've started to see rate increases. And there's more pressure coming, the COVID claims are coming, the low interest rate claims are coming. I don't believe all the prior year losses of underpriced business have been recognized yet.

And then -- so for all of those reasons, I am encouraged to think that this market that we're seeing has legs. And when we can deploy capital -- so this quarter, we reported a 12% return on tangible equity, 12.9% prior quarter. And when we can deploy capital in an interest rate environment that's 2% and make a 12% return on tangible equity, I think that's a good use of our capital, especially when we see ourselves grow and continuing to grow. And we're doing that, I think, while being prudent about what we're reserving for the future. So those are all the things that go into our mind.

I absolutely concede every point that I think there's a strong factual basis for your question. It's just -- this is our analysis of the situation today.

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

No, it's good. And just one quick clarification. You said low interest rate claims. Did you mean there's some pressure from lower interest rates on overall margins?

Jonathan Adam Abram
Chairman & CEO

I think the low interest rates for this industry means that the industry has to be very diligent about its pricing and markets that might be tempted or think that they could underprice a long tail risk and cover themselves with interest income. That there's no -- they don't have that argument to make to themselves today. That's not a strategy that they could pursue today.

Operator

Your next question comes from the line of Sean Reitenbach with KBW.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

I just have another question on the kind of Core E&S growth, thinking about getting a feel for modeling going forward. We -- obviously, it was another strong growth this quarter. And just trying to get a sense of how much of that was decelerated and how much of that was due to the pandemic versus kind of you guys had 81% growth the last 2Q -- 2Q '19? How much of it is kind of just a growing premium base that you're kind of growing on top of?

Sarah Casey Doran
Chief Financial Officer

Do you want to take that?

Jonathan Adam Abram
Chairman & CEO

I'm not sure that I understood exactly -- and it may be -- me -- I'm sorry. I...

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Sorry. I can rephrase it. So you guys had 18% growth this 2Q, which decelerated from 65% in 4Q '19, 37% 1Q '20. And how much of that is pandemic pressure versus just the premium base is a lot bigger in the prior year than it has been in past quarters?

Jonathan Adam Abram
Chairman & CEO

You mean we have a larger comp?

Sarah Casey Doran
Chief Financial Officer

Yes.

Jonathan Adam Abram
Chairman & CEO

Yes.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Yes.

Jonathan Adam Abram
Chairman & CEO

You want to do that?

Sarah Casey Doran
Chief Financial Officer

Yes. Look, I think that what's important here is we look at it, as kind of Adam went through, we've had great policy in force growth this quarter. We've really stuck to that $20,000 and around that size growth -- excuse me, premium base, premium account size. It's going to be a tough comparison when you have a quarter where we have 81% growth. That's just kind of the large numbers and the fact that we've doubled the Core E&S business over the last 2 years is, I think, the most important point.

We have not -- and I would just kind of answer the question a little bit more directly on the first part of it, Sean. We have not seen a slowdown in our growth due to COVID, just to kind of hit that. This is just -- this is very regular growth that we're seeing. I wouldn't have expected necessarily a bigger percentage number. I'm pretty happy to see the outsized PIF number that goes along with the strong growth in the top line.

I don't know if that gives you...

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Great. That's helpful. Yes. And then also, can you just give an update on how you're thinking about investment strategy with the pressured interest rates?

Sarah Casey Doran
Chief Financial Officer

Yes. Great question. I think one of the things that we did, which we talked about on this call last quarter is we sold out of a portion of our bank loan portfolio just because we had gone through so much volatility there. And we wanted to remove -- to take some of that off the table, and that market has recovered substantially. So we had a great opportunity to do that as we really focus on the underwriting that's in front of us in that part of our business.

I would say that no one's really happy with where the investment opportunities are these days in our sector or overall. But we're looking into some things. I would say that overall, I would not expect our NII or our investment strategy to change very much from where it sits right now because again, our focus is on the underwriting and doing everything we can there. I think we'll stay in the bank loans for the most part for where we are, at least some part of it. But taking that volatility off the table has been very useful to us, we think.

Operator

[Operator Instructions]

Your next question comes from the line of Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Can you hear me?

Jonathan Adam Abram
Chairman & CEO

Yes, we can, Ron.

Ronald David Bobman
Capital Returns Management, LLC

Great. Good to hear everyone's voice, especially Bob's. I had 2 questions. Any change in retention was the first question. And then the second question, maybe you can address that maybe by line. And then secondarily, are you seeing any change in claims settlement values?

Jonathan Adam Abram
Chairman & CEO

Yes. So there are some changes in retention that we've spoken about in prior conference calls. We've reduced and Bob may have made a reference to this in an earlier answer. But we reduced our net retention in both our individual written Workers' Comp. So that is material, but not -- it's not going to make a huge difference overall in the -- all of the premium that we write. But per claim, for example, we will have a smaller retention there. And I've mentioned that we keep a very small portion of the Workers' Comp business, it's in our program division, either 10% or 20% -- 11% or 20%.

The one other -- we have opportunistically taken larger positions on particular risk occasionally during the last quarter or 2 where we've -- but it's an individual account underwriting decision, where we've, for example, on a couple of Excess Casualty accounts that came to us where we felt the pricing was good, it was a client -- a customer that we liked a lot. The history of the account was good. We knew it. They were having difficulty filling out an Excess Casualty position, which is a sign of a very, very hard market. And so we stepped in at good pricing to take larger lines occasionally on that. We constantly review and are always open to reviewing our retentions. We're mindful that we have reinsurance partners who have been with us for a long, long time and arrangements that we've had in place for a long, long time. So we want to make sure that everybody is fairly treated across a long period of time. So I hope that answers your question. Bob, do you want to add something?

Robert Patrick Myron
President, COO & Director

Yes. Ron, good to talk to you again. And you may have also been asking about policy retention or renewal retentions. Those have...

Ronald David Bobman
Capital Returns Management, LLC

Candidly, I was, but I appreciate Adam's providing more info on the other one.

Robert Patrick Myron
President, COO & Director

Yes. The -- maybe the best way to look at it is by count. And we have -- we've seen, in this business, in our Core E&S business, it's really been pretty consistent. It has been and it stays in the low 60s. So we haven't really seen a significant change in policy retention in Q2. It was right at that level, and that's where it has been for just about every year that we've been in this business. So no significant change there.

And then I think on the average claim value, I just want to give a little bit more of a qualitative answer. I think, 2 things. In -- across our businesses, it's been a pretty benign claims environment in the first 6 months of the year. We've really seen pretty light paid and incurred loss emergence, and that's been great. I do think that, that -- there is definitely a link to economic activity and the pandemic, and there definitely is a situation whereby plaintiffs and/or their counsel are -- there's more of a willingness and ability to get claims settled that otherwise might be structuring on for a while as the plan would have been previously maybe take something to court. Well, courts were closed and as they reopen, a lot of them are going to be focusing on criminal-related matters and not civil matters.

So there has been a really good opportunity across our business to get claims settled faster at what might be lower average values, and we've been taking advantage of that. So new claims frequency is down, overall dollars have paid and incurred loss emergence have been modest, and we're continuing to see good opportunities to just get things quickly mediated and settled that otherwise might not have happened before.

Jonathan Adam Abram
Chairman & CEO

Yes. The only thing I'd want to add to that, Ron, is that it is important to us that we settle at the fair value of these claims. So we're in business to protect our insurance. And so I would not want it to be interpreted that we were taking advantage in any way of closed courts or unemployment or anything else that -- our view is we come to a fair value for each claim, and we work hard to settle the claim and to attend to the claimant in a fair way for the fair value of that claim.

Operator

And your next question comes from the line of Mark Hughes with SunTrust.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Adam, I interpreted that question the same way, which is about the retention. It did make me think -- I think your retention still is typically $1 million per risk or per account. I think one of your public competitors who had a similar policy increased their retention to $2 million, at least for public consumption. I'm not sure how broadly that's applied. Is that something you have considered as well, just as a general matter, increasing the retention? Is this the time to do it? And do you have the capital base and profitability to do it?

Jonathan Adam Abram
Chairman & CEO

Well, we have a capital base that would allow us to increase retentions. And the market is good right now. The overwhelming part of our Core E&S book though, one should know, is only buying [a million million]. So it's a smaller part of the book that's buying excess -- policy limits in excess of $1 million. So for a large part of our book, for many of our classes, what the customer is buying is [a million and million]. And so you -- this goes back to the fact that our average premium account size is in that $20,000 level. So we have this -- what we're doing is taking more market share in a very profitable market. But you see our policies in force going up.

The places where we could take more retention would be in Excess Casualty, for example, or excess property, for example, where we're pretty cautious about property, as you know. And we have taken occasionally, and we look at taking more in the Excess Casualty. But those are opportunities that we want to look out one by one right now, and we're not looking to change our treaty structure there right now.

Operator

[Operator Instructions]

And at this time, I am showing no further questions in queue. I would now like to turn the conference back over to Mr. Abram.

Jonathan Adam Abram
Chairman & CEO

Well, thank you, operator, and thanks to all the participants, shareholders, our friends in the analyst community, our employees and other interested parties. And I hope that everybody stays well, and we look forward to speaking to you at the end of next quarter, if not before. Thanks a lot.

Operator
Ladies and gentlemen, this concludes today's conference. Thank you for your participation. And have a wonderful day.