S&P Global
Market Intelligence

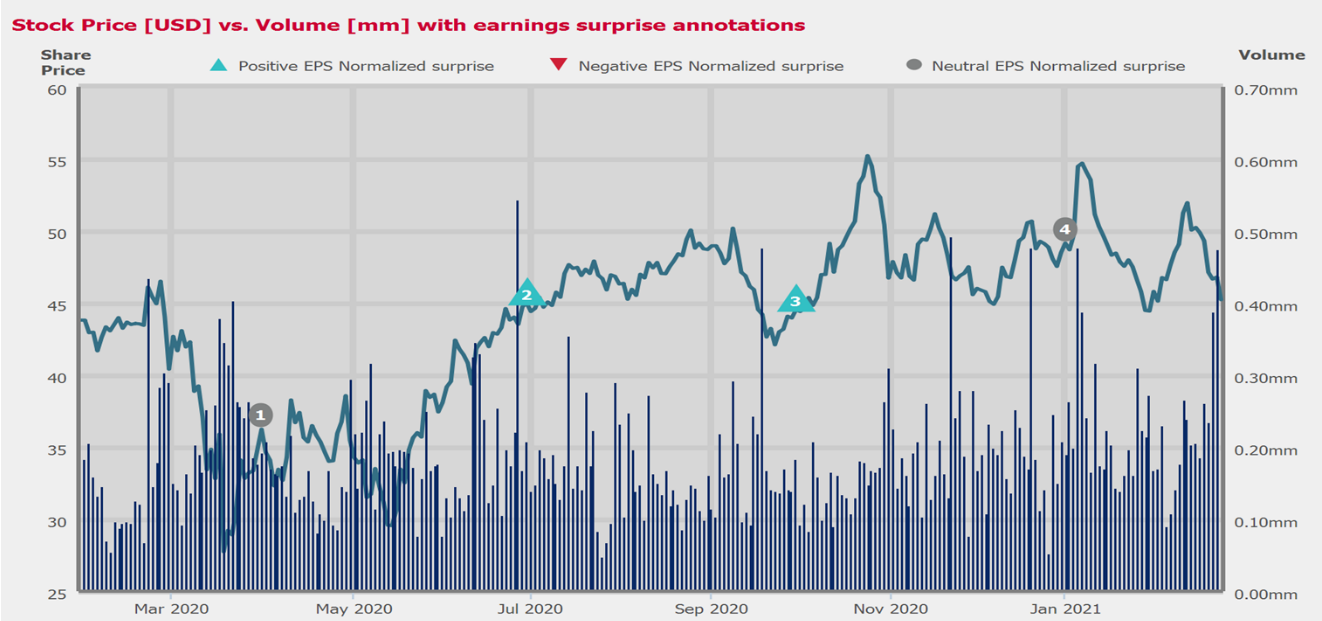
James River Group Holdings, Ltd.
NasdaqGS:JRVR
FQ4 2020 Earnings Call Transcripts

Friday, February 26, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.50)	(0.95)	NM	0.57	1.12	0.69	(38.39 %)	2.56
Revenue (mm)	170.00	194.19	14.23	173.27	644.50	668.69	3.75	723.10

Currency: USD
Consensus as of Feb-22-2021 12:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	0.50	0.50	0.00 %
FQ2 2020	0.46	0.56	21.74 %
FQ3 2020	0.50	0.56	12.00 %
FQ4 2020	(0.50)	(0.95)	NM

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Call Participants

EXECUTIVES

Frank N. D'Orazio
CEO & Director

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Robert Patrick Myron
President & COO

Sarah Casey Doran
Chief Financial Officer

ANALYSTS

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

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

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the James River Group Fourth Quarter 2020 Earnings Conference Call. [Operator Instructions] Please be advised that todays conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Kevin Copeland, Head of Investor Relations. Thank you. Please go ahead.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Thank you, Chelsea. Good morning, everyone, and welcome to the James River Group Fourth 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, Form 10-Qs and other reports and filings we made 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 Frank D’Orazio, Chief Executive Officer of James River Group.

Frank N. D’Orazio
CEO & Director

Thank you for that introduction, Kevin. Good morning, and welcome to everyone on the call. It's my pleasure to join you for the first time as the CEO of the James River Group. And I'm here today with our CFO, Sarah Doran, as well as our President and COO, Bob Myron. Before I hand the call over to Sarah to cover our financial performance for the quarter, I'd like to share a few introductory remarks with you.

My primary focus over the first 3 months of my tenure at James River has been to ensure that the company remains absolutely laser-focused on the market opportunity we have in front of us, strengthening our position as a best-in-class E&S carrier with an expanding fronting and fee income business and reprofiled casualty reinsurance capability.

To keep the resources and bandwidth of the organization focused on our prospects for the future, it's critical that we respond to emerging loss trends quickly making any necessary adjustments to our processes, our underwriting appetite and ultimately our reserve strength to prevent creating any distractions to the company's mission.

As previously announced, during our fourth quarter, we strengthened our reserves by $75.8 million in our Commercial Auto runoff portfolio and $24.7 million in our Casualty Reinsurance unit. In both instances, we saw emergence in the quarter, changed several assumptions and acted immediately to bolster reserves, adding nearly 4% to our overall net reserve position for the group. These charges ultimately drove our full year combined ratio for 2020 to 105.6%.

Our accident year combined ratio was 77% for the quarter and 90.4% for the year. These data points cast our prospective business in a very attractive light and give further credence to our focus on the opportunities in front of us. The Commercial Auto reserve increase primarily relates to the 2016 to 2018 years of the runoff portfolio, where we've responded to heightened reported losses this quarter. For some context, paid and reported losses on this book had trended down since putting the large commercial auto accountant to runoff a year ago.

The company started to see higher reported losses in the last 2 weeks of the third quarter, and this trend continued and accelerated during the fourth quarter. We believe this trend reflects COVID-driven delays as well as the year-end settlement season, possibly exacerbated by higher unemployment rates. We also completed a detailed claims review of a large block of the runoff claims and increased case reserves meaningfully in the fourth quarter. We've continued to close claims rapidly on this portfolio and have now closed almost 58% of the claims that were opened in January 2020, and are receiving very few new claims at this point.

Of our approximately $1.4 billion of total group-wide net reserves at quarter end, approximately $300 million supports the runoff portfolio. It's worth noting that even after our fourth quarter charge, our E&S unit made an underwriting profit for the year, producing a 97.7% combined ratio and our Specialty Admitted segment reported a combined ratio of 92.7%.

While our overall corporate results are clearly disappointing and not consistent with the company's unwavering focus on underwriting profits, our fourth quarter charge understates what was otherwise a year of significant accomplishment for the organization. I remain both enthusiastic about the positive fundamentals that underlie our ongoing business and very bullish on our prospects for 2021. Excluding the impact of our Commercial Auto runoff portfolio, the company grew by 26% in the fourth quarter over prior fourth quarter and by 14.6% over prior year to more than $1.25 billion in GWP with strong growth in both our E&S and specialty admitted segments, while driving margin expansion throughout the company. And benefiting from our 16th straight quarter of positive rate change.

Over those 16 quarters, our compounded aggregated rate increase on core E&S renewal book has been 31.8%. Our core E&S segment truly hit its stride in 2020 with positive indicators across all major metrics, including 38.9% GWP growth in the fourth quarter and 29.5% growth for the year as our submission count increased 11% for 2020, and policy count rose 26% over year in 2019. From a rate perspective, the segment experienced 13.7% positive rate change on the renewal portfolio.

We feel particularly optimistic about our ability to carry this momentum into 2021. Our early Q1 indicators point to a continuation of the buoyant 2020 rate environment as our January rate change was actually more significant than both Q4 and full year 2020. We also experienced GWP growth in the month of 37% as our quote-to-buying ratio increased 26% over January of 2020. These metrics seem to signal that we remain in a market that E&S underwriters dream about. I should also mention that these 2020 key measures were achieved while enjoying a major reduction in claims frequency throughout the year, down on an exposure adjusted basis by 19.1% based on policy count or 29.3% based on earned premium.

I should also note that our budget for 2021 assumes that these reductions in claim frequency are temporary and will revert to normalcy over the course of the year. I'm also pleased to announce that our Specialty Admitted segment continues to gain scale as the unit onboarded 8 new programs in 2020, ensuring further growth in GWP and fee income embedded in their 2021 plan, as these new programs gain traction over the course of the next year.

We have a very robust pipeline of new and exciting opportunities for 2021 as we continue to see momentum in program submission activity, which increased 74% in 2020, while fee income increased 22% over 2019 to $19.3 million. We are seeing larger and more attractive opportunities in this space as our Falls Lake unit makes the name for itself as a preferred fronting partner. And of course, all this happened against the backdrop of a global pandemic, with the vast majority of our workforce working remotely. I'm very proud of the dedication and resiliency of the James River staff for their accomplishments and efforts despite unprecedented challenges to continue to position James River as a premier specialty E&S carrier.

Our plans for 2021 call for us to continue to profitably grow the company, renewing the commitment to our underwriting culture, while continuing to invest in our people, our processes and our technology in an effort to create a larger, more profitable specialty carrier, consistently producing top-tier returns. Our expectation for 2021 to make an underwriting profit as a group and in each of our segments as we aim to produce a low double-digit return on tangible equity for the year.

With that as an introduction, let me turn the call over to Sarah Doran.

Sarah Casey Doran
Chief Financial Officer

Thanks, Frank. Let me highlight a few of the financial points from the quarter. Last night, we reported a net loss of $20.3 million for the quarter and net income of $4.8 million for the year, resulting in an operating return on tangible equity of 3.8% for the year. We had a $29 million operating loss for the quarter given the reserve charges, and operating income of $21.2 million for the year. For the year, we grew tangible book value per share 9% before dividend payments.

Our performance for the quarter reflects strong investment income performance and improved accident year loss ratios in our largest segment, E&S, offset by reserve charges on our Commercial Auto runoff book, and at our smallest segment Casualty Re.

Market conditions remain extremely attractive for our business, and we took advantage. We are reporting accelerating core E&S growth for this most recent quarter and almost 30% for the year. We continue to closely manage our expenses. Frank covered the Commercial Auto reserve strengthening, but we also experienced $24.7 million of adverse development in our Casualty Reinsurance segment. This development was offset by $7.5 million of sliding scale commission adjustments that run through our expense ratio, and those are on many of the treaties that performed adversely.

On the adverse development -- of the adverse development, approximately 1/3 was on treaties that we no longer write. A few of our reinsurance contracts experienced much higher-than-expected loss emergence during the quarter. And in response, we adjusted our loss development factors. While some of these contracts remain profitable, this dynamic brought on the adverse development.

This quarter, we had $13.5 million of favorable development from our core E&S business, emanating from the years 2019 and prior. We hold the most recent 3 years of our core E&S business at a loss ratio of 62.6%. And as Frank reviewed, we also reduced our current year loss pick in the core E&S book, almost 4 points due to the 20% to 30% decrease in claims frequency we saw during 2020, along with the rate increases that he cited, which substantially exceeded our expectations.

Our paid and reported loss ratios in core E&S remained at or below 30% for 2020, a decrease in reported losses of 10 points from 2019 and 27 points from 2018. We're not counting on the low frequency trend to continue in future years, as Frank mentioned, as the COVID vaccine becomes more widely available and activity continues to increase. But we believe the reduction in claims frequency for 2020 will be permanent and that we do not expect to catch up as a result of delayed reporting. Examples of this would be fewer slip-and-fall accidents, fewer people in restaurants, fewer people going to work. Our primary external reserve study indicates that our reserves are strong and adequate with a modest redundancy and strengthened from a year ago.

For the full year, core E&S made up approximately 65% of the company's net written premiums as compared to 40% for last year. It also makes up approximately 50% of our $1.4 billion of net reserves.

Moving on to expenses. Our expense ratio decreased to 19.9% this quarter as compared to 34.2% in the first quarter of this year and 26.7% for the full year 2020. There were a few offsets to this year's expense ratio that we would not expect to repeat. First, the asset of sliding scale commissions and Casualty Re lowered the expense ratio by about 2 points for the year and then reduced travel and other COVID-related savings as well as a significant reduction in our performance-based compensation lowered the ratio an additional point. We do expect that our expense ratio in 2021 will be closer to 30%.

Finally, moving on to investments. Net investment income for the fourth quarter accelerated as compared to prior recent quarters at $22.2 million, an increase from the same quarter last year, largely due to higher income from our renewable energy portfolio. One investment in this portfolio alone, matured and exceeded performance targets. We do not expect us to regularly repeat and that the net investment income will be similar in quantum to the second and third quarter of 2020. This quarter, our gross yield was about 3% or about 70 basis points reduced from the fourth quarter of 2019.

So with that, I will hand it back to Frank.

Frank N. D’Orazio
CEO & Director
Thank you, Sarah. Operator, would you kindly open the line to questions?

Question and Answer

Operator

[Operator Instructions] First question comes the line of Matt Carletti with JPM -- JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Frank, I appreciate your comments on the Uber reserve charge and the color that you were able to give around it. I guess one question I wanted to ask you that I think is on a lot of investors' minds and potential investors' minds is what can you say or kind of what color can you provide if there's any additional color that your confidence level with getting it behind you, right? That it wasn't just a reaction to the data that actual was worse than expected and you reacted to it. But that -- there was also a very large dose of increased conservatism put into the process such that hopefully won't have to be revisited?

Frank N. D’Orazio
CEO & Director

Thanks for the question, Matt. Let me try to walk you through kind of our thought process and how I feel about where we are right now. So clearly, we addressed loss emergence with a large number. We call for a claims audit by our senior claims leadership team to review a healthy sampling of the open files at the time, and we boosted our case reserves on a portion of those files. Our actuaries took the data from the quarter and the insights from the claims audit, and the indications for materially higher ultimate losses that we're now booked to. I'm comfortable with where we ended the quarter, in particular, with the overall group reserve position, given the indications of our external reserve study, but we are definitely better off today than we were a quarter ago. So in Commercial Auto runoff, to your question, case reserves per open claim are up about 150% year-over-year and up 25% since Q3.

We've closed roughly 58% of the open claims since we had the beginning of 2020. And I feel our new actuarial ultimate selection reflects the experience of the latest quarter as well as what we've learned in closing out with the bulk of these claims. So I'm comfortable with the actions we've taken. Now that being said, if there's an opportunity for us to further reduce any possibility of future emergence or tail risk or to move to a higher end of the range of outcomes in a format that makes sense, economically viable, then we're open to exploring that option. Because I don't want our runoff book to be an ongoing distraction and drag on the organization. I want the full resource of the company completely focused on the opportunities in this market to continue to grow our core E&S lines profitably and scale our fronting business.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then just another question, really a 2-part question, which just focus on core E&S. The -- I guess, twofold question. One is, as I think about top line, I think -- just to confirm, we will be anniversarying kind of the apples-to-oranges of Uber being gone and that kind of the -- whether it's the core E&S growth rate you quoted in the -- for the quarter in the press release or talked about January kind of off to a good start that those sorts of numbers are what we should be thinking about in terms of that segment reporting? And then a loss ratio question in the sense of, as I look at kind of the 62-and-change accident year that 2020 ended up at, is that a sustainable starting point? Or should we be thinking about some of the commentary you had around some of the frequency benefit that took place in 2020 as being a part of that and maybe not transferable to '21, at least to start?

Frank N. D’Orazio
CEO & Director

Okay. So there's a lot there, Matt. Let me start with...

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. I'm done after that.

Frank N. D’Orazio

CEO & Director

Okay. Let me try to start with the last part of your question, which is just how to think about the 2021 accident year relative to a loss ratio pick. So listen, as I mentioned, we had significant reductions in claims frequency in 2020, along with rate increases in excess of expectations. So we're not assuming the same reduction in claims frequency for 2021, and we're taking a fairly conservative approach to our loss picks going forward. So hopefully, that gives you some sense and color there.

And just relative to your question on the E&S market and how to think about top line and rate, I think that's where you're going on that. What I would tell you, I think our thesis for the rate environment for 2021, if you asked me this a month ago, I would tell you that I thought it was a continuation of some blend of what we saw in Q3 and Q4, maybe with some moderation by the back end of the year. But our January report on rate was much higher, not just in Q4, but our year-end 2020.

So that tells me, we're seeing a lot of opportunities in line with business like at Casualty, excess property, Allied Health, maybe some professional lines where rates we're seeing there are higher than the lines of business that saw -- I'm sorry, are higher there than the composite average that we have in the overall portfolio. So we'll continue to monitor those business mix dynamics over the course of the year. But we still think this market has legs. Between the live size limitations that we're were witnessing in the market, the retrenchment of the standard market across a number of classes, the Lloyd's [dessel] review and limitation on stamp size growth. And certainly, the continued overhang of recent accident years, we would be pleased with our regional thesis just relative to where we think growth can be and where rates will play out over 2021. But we have some additional optimism.

Operator

Our next question comes from Mark Hughes with Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Sarah, you were giving some numbers near the back end of your comments, you talked about the decline in reported either claims or losses for 2019. I think this was in the core E&S business. Could you refresh me on that number, if I'm clear on that?

Sarah Casey Doran
Chief Financial Officer

Sure. Happy to. Thanks, Mark. So I was just reviewing paid and reported loss ratios in core E&S because I think it's a pretty strong story there. And just to say that core -- paid and reported loss ratios in core E&S were at or below 30% for all of 2020. And that reflects the decrease of 10 points from where we were in 2019 and a decrease of 27 points from where we were in 2018.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then, Frank, when you look at the Casualty Reinsurance business, I wonder if you might talk about the where -- which sort of treaties, if there's any commonality, any particular lines where you saw the loss emergence? And then how do you think that business is positioned on a go-forward basis? What are your competitive advantages? What do you bring to the market to give us confidence in the future profitability and returns in that business?

Frank N. D’Orazio
CEO & Director

Sure. So let me try to address your questions on the development first. So in Casualty Re, roughly 1/3 of the development that we saw comes from treaties that were no longer on. So we saw development on treaties from 2012 to 2018, but most of the charge was really from the 2016 and '17 years. The lines of business that saw the most development were GL for contractors and Commercial Auto liability. We ended up changing our loss development factors on a few of our larger historical treaties. Some we still write, some were no longer on, but the book's been paired back in recent years. So significant reductions or eliminations of some volatile elements, nonstandard auto, workers' compensation, any property exposure.

So roughly 1/3 of the emergence came from treaties that we no longer support. And hopefully, that gives you some sense in terms of where we're seeing it from. But ultimately, we chose to take a more significant charge in the actuarial recommendation that the $24.7 million, it's the largest quarterly charge to the units ever taken. So I feel very good about the steps we took there, and I feel even better about the likelihood to make an underwriting profit in the recent and current accident years just based on the reprofiling of that book, the improvements made at the transactional level, relative terms and conditions. And then just the underlying lift in terms of rate and improvements in the underlying business. So that's some color there. Just -- I'm sorry, go ahead.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes, I didn't mean to cut you off, but I was going to ask you've definitely been very optimistic about the growth outlook in the core E&S. What should we think about the Casualty Re book? Are you trying to grow that? Hold it steady?

Frank N. D’Orazio
CEO & Director

Yes. So good question. I would say we've been more focused on margin expansion there than growth. I would expect to see maybe some modest growth. But from a strategic standpoint, listen, we like the efficiencies Bermuda has historically provided us. Having the footprint that we do in the states, I like having positioned the Bermuda market. I think it's got the ability to round out distribution and market access opportunities for us. And I spent 12 years in the Bermuda market. So I think I know that market well, and I will continue to explore ways to see if we can optimize our results there further over time.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then, Sarah, I've asked you this before, the ceded premium ratio within the core E&S, any directional thoughts on that? I think you described that the excess casualty, excess property were some lines that you saw performing quite well. It sounds like you're growing there. How should that ceded premium ratio trend in the core?

Sarah Casey Doran
Chief Financial Officer

Yes. That's a great question, Mark. Thank you for asking, and excess casualty is really what drives that. That was about 1/3 of our premium in core E&S this year. So that's what brought that ceded ratio down to its kind of current level. And that's the book, and throughout all of core E&S, is growing the fastest, it really has the most consistent and best rate environment. So all that would roll up to say that I don't have a specific crystal ball on which line is going to grow when, but that one still certainly has a significant length. So I would feel pretty comfortable with that ceded ratio in core E&S as where it's been. This quarter is pretty similar to last quarter as well and think about that moving forward as well.

I think we could, as the year goes on, as we're thinking about different things, there are always different levers to consider here. We certainly buy a fair amount of external reinsurance, but that book would've been very profitable. That could be something that we'd look about ways to manage our capital going forward as well. So just to kind of give you a sense of other things that we're thinking about moving the dial and taking advantage of this market right now. But if we're just looking for a pure kind of modeling question and assumption, I think the current rate is a fair enough one for where we sit. Current ceded ratio.

Operator

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

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

I just wanted to ask on the Commercial Auto reserve charge. Could you lay out -- and I was looking around, I don't think the 10-K is out yet. So a number that would be helpful to have is kind of what the -- where the incurred net losses on a GAAP basis for 2020 now. But if you don't have that, then kind of what accident years the adverse development was in. So we can kind of understand how each accident year is developing.

Frank N. D’Orazio

CEO & Director

Bob, do you want to help us?

Robert Patrick Myron
President & COO

So Randy, let me answer that question. So I've got full year data here with me. During the calendar year 2020, we added reserves for '16, '17 and '18 of $11 million, $47 million and $53 million, respectively. I think I would want to mention again that, as Frank did, that we've made a significant amount of progress here closing claims. And we've -- as of -- relative to the peak that we had, we've closed 58% of what was outstanding in January 2020.

The remaining 80% of -- sorry, above 80% of what's remaining open are from the accident years '18 and '19. You'll remember that there's a lot of moving pieces to this commercial auto book, especially that both rate and state mix change consistently throughout the 6 years where the large commercial account wasn't meaningful for us. We got material rate increases in '18. The '18 underwriting year that continued into the '19 renewal. As we got increased rate, also our -- the number of states that we insured shrunk. And some of the more problematic states went away that had longer statutes of limitations and significant UM/UIM type of exposure like Florida, which wasn't in the portfolio in '18 or '19.

The state mix also, as I mentioned, shifted a lot, and the performance of the book changed with the reductions in the states as well. So I think that we continue to get a trickle of new claims in, but it slowed down a lot. And I would just reiterate that we've made material increases in the case reserves relative to a year ago, it's above 100 -- 15% increase there.

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

Okay. And just -- can I just confirm those numbers? You said for '16, you added $11 million. And then for '17, you added $47 million, and then for '18, you added $33 million. Is that right?

Robert Patrick Myron
President & COO

$53 million.

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

$53 million. Well, does that mean you took '19 down to get to the back of the $76 million?

Robert Patrick Myron
President & COO

No significant...

Sarah Casey Doran
Chief Financial Officer

Those numbers were for the year, Randy, just to say, Bob was citing and not for the quarter, just to point out.

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

Right. But those numbers sum the 100 -- maybe we should take this offline. But I guess the question for right now is that there's no material change to '19. '19 stays at like around $262 million?

Robert Patrick Myron
President & COO

So it's pretty close to where it was. I mean we look at that year, and we look at how it's performing so far. And with our -- I think we've talked about before, sort of the refocus of claims handling around Commercial Auto when we canceled -- when we significantly pared down this business, we expect that year to -- the way we're looking at now. We still think it's a profitable year.

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

And then just one other follow-up. The 80%, you said of the remaining claims are from the '19 and '20 accident years, correct?

Robert Patrick Myron
President & COO

'18 and '19.

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

'18 and '19. Okay. Got you.

Robert Patrick Myron
President & COO

We don't have any exposure. We don't have -- this was -- well, it's just worked very quickly reminding everyone how that worked. So we're not on risk for any accidents that happened after 12/31/19. It was done on a cut-off basis. So we don't have any claims from 2020.

Operator

Our next question comes from Meyer Shields with KBW.

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

I guess this is for Sarah. You talked about the diminished frequency of claims that clearly didn't happen. I was hoping you could update us on how you're thinking of severity for accident year '20? And I'm asking both in general and because of the growth in excess casualty, we would imagine, severity trends are typically higher.

Sarah Casey Doran
Chief Financial Officer

I -- that cut out for a second. Are you asking about the 2021 versus 2020, Meyer? I apologize, I didn't pick up that full question.

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

No. I'm actually asking about 2020 itself, completely onboard with the idea that frequency was -- the frequency benefit is going to hold up because these things just didn't happen. But I wanted to get a sense as to how your -- the severity assumptions underlying the accident year '20 loss base?

Robert Patrick Myron
President & COO

Yes. So Meyer, this is Bob. So we've seen, in this small account, casualty book that's individually underwritten. We have not really seen -- when we look backwards, severity has been pretty benign. I think it's important to bifurcate a couple of things here. First of all, in terms of the frequency decline in the stats that we've quoted herein, this is really related to the 2020 accident year, when we've looked at it. So not just claims that we received in the year, but specifically related to 2020 accident year claims.

But overall, in particular, referencing back to the some of the stats that Sarah quoted, the dollars of loss emergence have been really benign in this book of business, right? And so we feel great about how -- where our loss picks are, and we're hoping that we're continuing to build redundancy there. But when we look forward, I think we're making a conservative assumption around loss trend. And what had probably been low single digits, we're making an assumption around probably mid-single digits.

And I think that it's really less about the data that we're seeing because our paid and incurred actual dollars of loss are so benign. But I think we're just cautious that while I think social inflation and the like has been a bigger issue with larger account business and some areas of exposure and insurance that we really don't get into. I think we're just cautious that it's probably prudent to be raising that trend assumption more to sort of mid-single digits. So hopefully, that was clear.

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

No, it was exactly -- it's also exactly the right call. So that's good to hear. Getting sort of different messages around the industry, can you talk about how ceding commissions are changing in Casualty Re?

Frank N. D'Orazio
CEO & Director

Sure. Why don't I start that. There are some improvements in ceding commissions. I would not say significant, at least in the portfolio that we write, call it, a point-ish roughly in terms of how we look at the improvements there. The more significant improvement that we're seeing relative to margin expansion is really in the underlying business. Maybe some terms as well, but for the most part, the lift we're seeing in the rate there.

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

Okay. Good. There are some examples, I guess, casualty related ceding commissions going up instead of down. So it sounds like you're not worried about that. And then finally, with the growth in the excess property, is there any material exposure to Texas weather a couple of weeks ago or last week?

Frank N. D'Orazio
CEO & Director

No. Obviously, a fair question. We have a fairly modest-sized portfolio of excess property. It's heavily reinsured. Obviously, watching the events over the last couple of weeks closely in monitoring and in constant touch with our claims folks, but we don't expect it to be a material event for the organization.

Operator

There are no further questions. I would now like to turn the call over to Mr. Frank D'Orazio.

Frank N. D'Orazio
CEO & Director

Okay, operator, and thank you to everyone on our call for your interest in James River. We look forward to reporting to you next quarter.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.