S&P Global
Market Intelligence

James River Group Holdings, Ltd. NasdaqGS:JRVR

Earnings Call

Wednesday, November 8, 2023 1:30 PM GMT

Call Participants

EXECUTIVES

Brett Shirreffs
Senior VP of Finance, Investments & Head of Investor Relations

Frank N. D'Orazio
CEO & Director

Sarah Casey Doran
Chief Financial Officer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Presentation

Operator

Good day, and welcome, everyone, to the James River Group Quarter 3 2023 Earnings Conference Call.

I would now like to turn the call over to Brett Shirreffs, our Head of Investor Relations. You may begin your conference.

Brett Shirreffs
Senior VP of Finance, Investments & Head of Investor Relations

Good morning, everyone, and welcome to the James River Group Third Quarter 2023 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 of our most recent Form 10-K and other reports and filings we have made with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

In addition, during this presentation, we may reference non-GAAP financial measures such as adjusted net operating income, underwriting profit, tangible equity, tangible common equity and adjusted net operating return on tangible common equity. Please refer to our earnings press release for a reconciliation of these numbers to GAAP, a copy of which can be found on our website at www.jrvrgroup.com.

Lastly, unless otherwise specified for the reasons described in our earnings press release, all underwriting performance ratios referred to are for our business that is not subject to retroactive reinsurance accounting for loss portfolio transfers.

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, Brett. Good morning, everyone, and welcome to our third quarter 2023 earnings call. I'm pleased to be joining you today to provide additional color on our third quarter results, while also sharing some thoughts around marketing conditions and the strategic priorities that James River continues to focus on.

In addition to reporting our third quarter results, this morning, we're excited to announce the sale of our Casualty Reinsurance business, JRG Re, to Fleming Insurance Holdings, a portfolio company of Altamont Capital Partners. This transaction marks a significant milestone for the organization as it will bring ultimate finality to our exposure from our legacy reinsurance platform.

Having also sold the renewal rights to our individual risk workers' compensation business during the third quarter, moving forward, James River will be focused on the E&S and fronting markets, sectors where we have scale, market leadership and strong teams in place to take advantage of market opportunities.

This transaction will provide a clean exit from the reinsurance business, eliminate future reserve volatility and freeze up capital to focus on our areas of growth. We also believe the sales simplifies the James River story while paving the way for more consistent earnings.

Turning to our results. The third quarter continued to show the positive momentum we have as an organization and strong underlying trends in our ongoing businesses. We again delivered profitable underwriting results in both our E&S and Specialty Admitted segments, while our investment portfolio continues to perform well with record investment income during the third quarter.

We have seen a modest acceleration of some already positive trends in our E&S business, including renewal rate increases and submission growth, clearly a favorable indication of the strength and durability of this market cycle, while we also continue to execute on portfolio management actions across our business as we remain focused on bottom line profitability.

For the third quarter, we reported adjusted net operating income of $18.3 million or $0.48 per share. Our return on tangible common equity ex AOCI was 13% for the quarter. Tangible common equity per share of $10.25 has increased 9.3% before dividends through the first 9 months of the year as both our underwriting profit and strong investment returns have contributed to this growth. Our tangible common equity per share, excluding AOCI, was $15.27 at the end of the third quarter and up 11.2% year-to-date.

Now let me provide a little more color on our segment results and market conditions. As I have stated previously, we continue to view the E&S environment as highly attractive. Competition remains rational across most of our E&S underwriting units, and we have seen renewal rate change trend higher in each sequential quarter this year, topping out at 12.4% in the third quarter. This increase is the latest of 27 consecutive quarters of positive pricing, bringing the compound renewal rate change to 77.2% since 2017.

Renewal rate increases remain broad-based across our portfolio, with most underwriting divisions achieving rate change in the high single or low double-digit range through 9 months. While rate increases in our excess property division continue to lead the segment, the remainder of our E&S business, all casualty lines, achieved rate increases of 9.1% during the third quarter, consistent both with our experience during 2022 and another indicator that our nonproperty divisions are producing healthy increases in rate.

Excess Property, Excess Casualty and Energy all showed meaningful double-digit rate increases, while general casualty rates increased 8.9% during the third quarter. Our 15 underwriting divisions continue to build on our strong relationships with wholesale distribution. Total submission growth of 8% during the third quarter was driven by new business submission activity and was our strongest submission growth rate in 3 years.

Excess Casualty and general casualty both recorded double-digit submission growth in the quarter at 14% and 24%, respectively, with several other units in the high single digits. Policy count increased 9% during the third quarter, again, supported by some of our larger underwriting units, General Casualty policy count increased 25%, while Excess Casualty was up 19% and manufacturers and contractors increased by 12%.

Overall, we continue to be encouraged by pricing and market trends, which suggests that the current attractive market conditions should lead us well into 2024. Consistent with our actions last quarter, we have deliberately been more cautious on certain classes of commercial auto, particularly food delivery, and have made efforts to reduce exposure. These actions led to a 44% decline in commercial auto gross written premium, representing a $7 million reduction relative to the prior year.

We believe this action is prudent as we look to continue to generate strong profitability across our portfolio. Our core E&S gross written premium growth was 10.3% in the third quarter, excluding commercial auto, and 10.8% on a year-to-date basis. This performance was driven by strong growth in General Casualty, Manufacturers and Contractors, Energy, Excess Property and Sports & Entertainment.

Throughout the third quarter, we saw year-over-year growth rates accelerate in each month. We closed the quarter with nearly 16% growth in core E&S premium in September, which is one of our strongest monthly growth rates during 2023. Looking across our underwriting divisions and reflecting on the rate improvements we have achieved throughout 2023, we are confident in our outlook for profitable growth.

The E&S segment reported a combined ratio of 88.4% and underwriting profit of $18.3 million for the third quarter. We did not record any catastrophe losses in the period, however we did experience $7.8 million in adverse prior year development as we made the decision to shore up reserves from older accident years from 2015 to 2018 in our General Casualty line of business, where the industry has seen some adverse emergence trends.

Partially offsetting this strengthening was a reduction to estimated losses in the current accident year based on general rate trends and significant portfolio management actions and improved risk selection as we've exited several loss-leading classes over the last few years and have taken other underwriting actions.

As a result of these favorable pricing dynamics as well as our portfolio management actions, we reduced our current accident year losses by $8 million in the quarter to reflect these trends and the impact on year-to-date results. Our E&S accident year loss ratio for the first 9 months was 65.8% or 64.1%, excluding the impact of reinstatement premiums. This compares to an accident year loss ratio of 65%, excluding catastrophes, in the prior year period or a 90 basis point improvement year-over-year. All in, we remain excited about the opportunity set in front of our E&S segment and we have an exceptional team in place to continue to execute on our growth plans while maintaining attractive margins.

Turning to Specialty Admitted. As I mentioned earlier, during the third quarter, we announced the sale of the renewal rights of our Individual Risk Workers Compensation business to the Amynta Group. The sale encompasses the full operations, including underwriting, loss control and claims. This business had generated $48.5 million of gross written premium on a trailing 12-month basis.

This strategic action immediately follows the nonrenewal of our large California workers' compensation program that we discussed last quarter and was a natural next step, allowing our Specialty Admitted segment to focus on fronting and program business moving forward. We believe there is a strong opportunity for disciplined growth within the space.

As has been the case throughout our history, we will continue to focus on supporting profitable programs with a conservative approach to reinsurance security and collateral. Segment results for the quarter included 10% growth in fronting and program gross written premium, excluding workers' compensation. We saw growth from several new programs initiated during the third quarter and also experienced continued growth from existing programs, which included meaningful rate increases in certain areas. Specialty Admitted underwriting profit in the third quarter was $2 million, and the combined ratio came in at 92.5%.

Lastly, turning to our Casualty Reinsurance segment. Results for the quarter continue to reflect the earnings of treaties written in prior years as well as various premium adjustments. The underwriting loss was $4.2 million and included $4.7 million of reserve strengthening from business not subject to the LPT. Reserve development was driven by movement on a few specific treaties primarily from treaty years 2016 to 2019 driven by primary GL exposure.

There were also several treaties that experienced a model -- a modest level of favorable reserve movements during the quarter as a result of claim settlements and loss experience. Additionally, we experienced $7 million of reserve strengthening on treaties covered under the LPT, reflecting deterioration from construction and construction defect exposures. The remaining limit on the retroactive reinsurance that we put in place 2 years ago is now $38.3 million.

Our third quarter results reflect the continued effort of our dedicated employees to refocus James River around our core competencies. Our underwriting franchises remain leaders in their respective specialties and remain well positioned to take advantage of attractive E&S market conditions and fronting market dislocations. As I've said before, our focus remains on deploying capital where we can achieve consistent and attractive returns for shareholders.

And with that, let me turn the call over to Sarah.

Sarah Casey Doran
Chief Financial Officer

Thank you very much, Frank. Good morning, everyone, and thanks for joining us today. First, a bit more on the transaction that we just announced. As Frank mentioned, earlier this morning, we executed definitive documentation to sell the business and entity underlying our Casualty Reinsurance segment to Fleming Holdings.

As Frank mentioned, this transaction and the sale of the renewal rights of our individual risk workers' compensation book we announced and closed in September, our key final pieces of our work these past few years to streamline the organization, focus on our core strengths where we have significant market advantage. We're thrilled to be at this point. We believe our franchise is well positioned according to its strengths and to drive compelling returns for shareholders and that our colleagues at JRG Re are very well positioned to help Fleming grow.

The sale will be a full separation via the stock purchase agreement we executed with Fleming. Consideration will consist of $138 million of cash at close and $139 million of a pre-closing dividend. The pre-closing dividend does not require regulatory approval. We expect to contribute the transaction proceeds to our existing U.S. insurance businesses. The transaction is subject to customary closing conditions, including approval by the BMA.

Given the sale at a 25% discount to book, which is entirely consistent with runoff entity sale transactions, we expect to have a loss on sale of approximately $93 million or $2.50 per share, which we will record next quarter, the fourth quarter, as we move the business into discontinued operations.

We expect the transaction to be largely neutral to earnings with the loss of investment returns, but elimination of what has been historical underwriting volatility in the segment. Similarly, we expect to be able to meaningfully improve earnings stability, owing to larger contributions from our E&S business and less from exposure to the Reinsurance business.

Finally, it is expected to be accretive to 2024 return on tangible common equity, excluding AOCI, by approximately 250 basis points. We have had preliminary conversations with both our rating agency and regulator. And while it's early days, those conversations have been positive, to be clear.

Given the balance sheet and in particular reserves that we are selling, we do not need to raise capital to affect the full separation. We are very grateful for the help of our advisers on this transaction, Citi, Howden Tiger and Debevoise and their many months of thoughtful collaboration to get to today.

Back to the quarter briefly. For the third quarter, we're reporting adjusted net operating income of $0.48 per share compared to $0.41 per share in the prior year quarter, an increase of 16%. Tangible book value per common share was $10.25 at September 30 and has increased 7.7% from the start of the year or 9.3% before dividends.

During the third quarter, AOC -- accumulated other comprehensive loss declined by $40.2 million due to unrealized losses on our available-for-sale fixed maturity portfolio due to the rise in interest rates. Excluding the impact of AOCI, our tangible book value per common share has increased 10.1% from the start of the year or 11.2% before earnings.

We continue to have solid underwriting performance, strong net investment income and consistent growth in our core businesses. We're delivering $18.3 million of adjusted net operating income, including $7.6 million of underwriting profit and $26.3 million of net investment income on a pretax basis for the quarter.

Our group combined ratio was 96.2%, roughly a 2-point increase over the prior year quarter, mainly driven by a higher expense ratio and unfavorable reserve development in our Casualty Reinsurance segment. We did not experience any catastrophe losses in the quarter. And while higher than the prior year, our expense ratio of 27.6% in the third quarter is consistent with the targets we provided on our fourth quarter call.
So with that, I would like to turn it back to the operator to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mark Hughes from Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

A lot of good news, but I'll focus on the adverse in the E&S. Could you talk a little bit more about what you're seeing? Clearly, the '15 through '18 and the General Casualty has been a challenge for lots of folks for the industry as a whole. What did you see, what prompted you to take the action now and then the -- what are the total reserves that are still outstanding for those '15 through '18 accident years?

Frank N. D'Orazio
CEO & Director

Sure. So listen, I agree with you, Mark. Like much of the rest of the industry, we saw some signs of pressure on our General Casualty reserves from the soft market years. So during the quarter, we chose to address that we perceived as some signs of weakness in the 2015 to 2018 years that caused us to make some adjustments to reserves and shift some IBNR. Obviously, it's a disappointing development to see, but this is an industry dynamic, as you mentioned, and it's clearly extending the current pricing cycle to our benefit.

So stepping back, I do take comfort overall based on the persistent strength of the rates that we've achieved now more than 77% cumulatively during the cycle with major improvements in underwriting and no signs that this market is letting up. And yet you have to take that in concert with the overall conservatism that we've embedded in the last few years.

So we believe we've been very conservative in our recent accident year loss picks and at a time when we brought a lot more underwriting oversight and discipline into the organization, produced substantial rate and have made meaningful changes to risk selection and exclusionary language as well as other portfolio management tools. And the benefits of those actions gain strength year after year in these market conditions.

So like the rest of the industry, we're watching the older software market -- excuse me, the older soft market accident years very closely. But I look at everything we've done and continue to do for several years now in terms of rate improvements and underwriting actions, and that certainly gives me a lot of confidence overall.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Did you take any favorable development, say, in the '19 through '22 accident years to -- as an offset? Not as an offset, but did you recognize any favorable development?

Sarah Casey Doran
Chief Financial Officer

I don't believe so, Mark. We can go. We don't have all the details in front of us there, but I don't believe that we did on any of the prior years.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Okay. So this was kind of net-net, this was the...

Sarah Casey Doran
Chief Financial Officer

I'm sorry, let me understand your question. The $8 million is net-net, absolutely right.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Yes. The $8 million is net-net, but I'm just curious whether there was some -- the adverse in those older years might have been higher but offset by gains in subsequent years during the harder market conditions.

Sarah Casey Doran
Chief Financial Officer

Nothing that I can think of right now. We're happy to go back and look. But again, the focus was more so on the $8 million.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Yes. Okay. And then what -- if we think about General Casualty reserves that are still outstanding from '15 through '18, is there kind of a rough number for what's left within the areas where you saw some emergence?

Sarah Casey Doran
Chief Financial Officer

Mark, I'm sorry, we don't have that number right in front of us, but we are happy to follow up on those details. Apologies.

Operator

The next question comes from the line of Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

I just had a question on kind of the other comments in the press release about material weakness around some of the accounting for one of the reinsurance transactions. Can you just walk us through, I guess, question one is the $10.4 million of net income overstatement that for the 6 months. Is that reflected in the equity and book value numbers we see at 9/30 in the press release, or is that yet to come? And just practical impact of what it means and how it gets remedied.

Sarah Casey Doran
Chief Financial Officer

Sure. Yes, sits in there. If you look on Page 15 of the press release, you can see that the second quarter is restated. So the $10.4 million is in there for the 6 months, $10.4 million net income, restating premiums is $12.3 million. That's running through there as well. From a practical perspective, it was an area that was found in the very early days of our close in the third quarter, which we found related to the second quarter. And as you may recall, Matt, because I know you've been covering us for a while, on our Specialty Casualty treaty at least up until this year when the structure changed, it had a significant reinstatement component when we've had some large losses that [indiscernible] layer triggers restatements out of the box. We also had this phenomenon in the third quarter of 2021.

So we had 3 larger losses in the third quarter -- excuse me, in the second and first quarter of this year. I think they were all energy, and that's just the impact of the timing at which we had booked the premiums.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. All right. That's helpful. And then just maybe zoom out a little bit. Frank, you gave some high-level comments just on the state of the market and obviously, things sound like very good. Can you dig in a little bit in kind of as we think about your kind of the specific underwriting divisions, as the markets continue to evolve, what have you seen recently in terms of -- have you seen more opportunity in certain areas and then pulling back and others, or has it been a little more constant over the past several quarters?

Frank N. D’Orazio
CEO & Director

Yes. No, it's a good question, Matt. So I would say very healthy growth opportunities still persist across much of our E&S platform, and we saw that in the third quarter. The majority of our underwriting divisions continue to report solid growth, nearly all divisions reporting positive renewal rate changes. I don't think we've seen any significant change in the opportunity set for the E&S business.

Our core E&S segment, which, of course, as you know, is all of our E&S underwriting divisions with the exception of commercial auto, that grew at a double-digit clip, so at 10.3%, stand at about 11% year-to-date now, certainly driven by some healthy rate increases. New submissions, I think I referenced in the script, growth for the quarter was up 8.4% over Q3 last year. That's the highest it's been in 2023, which is a great indicator for future growth. And many of our underwriting divisions are certainly growing at an attractive pace, certainly greater than rate increases, including contract binding, sports and entertainment, professional liability, energy.

And then 2 of our biggest underwriting divisions, General Casualty where we see a lot of opportunity and Manufacturers & Contractors. So it's these types of market dynamics where you get strong rate, healthy submission trends that I think suggests that the conditions should continue to be very favorable as we move into next year. But I guess the other side of that, and I spoke about it is commercial auto. So listen, no surprise your most data point suggests the industry hasn't made a lot of money in the last 5 years in commercial auto. We continue to purposefully reduce the size of our portfolio by being extremely selective, and I would suggest acutely aware of the impact of loss cost trend as well as social inflation. And we're aggressively pushing rate, particularly in the subsectors of the classes that we're most concerned about, and I mentioned food delivery before.

And as a result, these types of portfolio management actions, we decreased our writings in the quarter by 44% compared to the prior year quarter. So that resulted in about a 4-point drag on our E&S growth rate. And I would say that will probably continue to be a trend going forward just relative to our views on commercial auto.

Operator

The next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Congrats on your JRG Re sale announcement. While structurally, the sale will reduce some overhang, I'm wondering if you could walk through why you feel a 0.75x price to book is fair valuation. I get that maybe other runoff deals valuation is in this range, but you do have that LPT in place. And then I'm also kind of thinking about the $93 million net loss or dilution that you talked about. And if I compare that to your tangible common equity, that was $385.5 million. It feels sizable.

Frank N. D’Orazio
CEO & Director

Yes. Let me start with some commentary about how we thought about the transaction. So clearly, we felt, I think the biggest concerns that our investors and other stakeholders in the company had were the questions surrounding our Bermuda Reinsurance segment. So including whether we're going to continue to experience adverse development from prior years, whether we had purchased enough LPT limit from the legacy market and frankly, whether we get to a point where we need to raise additional capital in the event we had to take steps to further shore up the entity.

And so we feel this transaction addresses those risks, removes roughly $400 million of volatile reserves from the balance sheet and again, without the need to raise capital. And after we took the steps to, in the third quarter, sell the renewal rights of our workers' comp portfolio, what we're left with now, James River is now roughly a $1 billion well-performing E&S carrier, recognized as a leader in the sector and one of the few very well-regarded fronting companies. It's been around for a while with a very deep team and a coveted value proposition.

But relative to your question, I mean, certainly, we're valuation-sensitive. As for the discount to the entity and the sales price, we analyze industry transaction of this nature that have occurred over roughly the last 15 years. And while this entity is a bit greener in terms of how recently it was writing live business, and I think that's a factor, Tracy, obviously, also solely focused purely on reinsurance.

So we felt the discount to book value is still very comfortably in the range of prior transactions, even with some of the scenarios, the idiosyncrasies that we've just referenced between the LPT limit still there, but the fact that we're not that far removed from being a live underwriting operation, and it is purely Bermuda Reinsurance.

And so taking all that in consideration, in addition to providing a great new home for the entire team of our segment and providing a clean and final break from the business, I think prospectively, the company is just in a much better position with this transaction, simplified and focused on areas where we've got scale and expertise.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

That was very thoughtful...

Sarah Casey Doran
Chief Financial Officer

Yes. I was just going to add a couple more data points to your questions, if I could. So obviously, the runoff entity, just to get a valuation for a few more points. Obviously, not a place where you see a ton of entity-level runoff transactions, very disparate and the level of liabilities is also in the age of the liability. So just to kind of add on to the 75% of book value metric.

I think second, the LPT in place, yes, certainly helpful to have the LPT in place, but to some degree it's counterbalanced by, as Frank referenced, the greenness of the reserves. The entity has only been in runoff for a couple of quarters at this point.

Second, on to the capital question. We certainly have our tangible common equity number spot on. Total shareholders' equity of $562 million and total tangible equity of $530 million we're offloading over $400 million of loss reserves through the transaction against which we hold a significant amount of capital. I think between those two pieces, your capital ratios are not too different from where they are kind of as they net out. Again, those loss reserves against the $93 million discount to book. So hopefully, that helps. Obviously, we hold a lot of capital against those reserves.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

No, that's very helpful. So if I piece that all together, I'm wondering if that $93 million net loss could squeeze your underwriting capacity to grow.

Sarah Casey Doran
Chief Financial Officer

We do not expect it to. Our rating agencies ratios are very consistent with where they have been. And the idea, I think as we said -- as I said in my remarks, is that we contribute that capital down to the U.S. entities, but our premium surplus stayed pretty consistent, but more so looking at the loss reserves to equity metric.

Again, it's fairly stable so there's no expectation that that's going to squeeze our growth rate, especially with our remaining businesses being effectively more capital light than the reserves in the casualty reinsurance business. I think that's probably the kicker.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And can you share some color on your E&S retention that dipped due to a new casualty reinsurance treaty?

Frank N. D’Orazio
CEO & Director

Yes, I can give you some color there. So you'll recall last year at the midyear point, we increased our retention on one product line, specifically our Excess Casualty Treaty, by 10 percentage points at the midyear, and that drove a higher net to gross retention over the last 4 quarters. But at the midyear 2023 renewal, we undertook a very broad review of our E&S seeded reinsurance structure and looked at a goal of trying to improve our volatility protection and maximizing underwriting income while certainly utilizing the strong relationships that we have with our reinsurance partners.

So this new structure the way we think about it allows us to make changes based on market conditions or reinsurer appetite and ultimately the performance of the portfolio. So the new treaty provides broader quota share coverage across all casualty lines, including primary participations. So that's different. And in doing so, it provides us basically with risk sharing across what I'll call maybe some of the more volatile elements of the E&S portfolio as well as some of our larger lines such as General Casualty and Manufacturers & Contractors. And fortunately, it gives us a very favorable ceding structure and economics relative to both ceding commissions as well as first dollar protection in areas that we didn't have before.

So the other point that is worth noting particularly in this quarter, is that we expanded our use of excess of loss reinsurance protection, which allowed us to move to that flat rated structure, I think Sarah kind of spoke to it a bit earlier. So very notably, that means that the reinstatement charges and volatility that have impacted our results in Excess Energy go away for business written under the new treaty structure.

So had the losses that we wrote in prior accident years that were reserved this year been written under this structure, there would be no follow-up reinstatement charges. So overall, we're very pleased with the outcome and would expect, I think, the third quarter to be a pretty reasonable proxy relative to the net to gross retention going forward.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

You mentioned that the ceding commissions were favorable. So that's relative to your policy acquisition costs. Do you still see a nice spread?

Frank N. D’Orazio
CEO & Director

Yes. Well, I would say despite I think what's -- there's some headwinds in the reinsurance market, I think overall, on the treaties that we place and there's a number of them that make up this structure. I think we had a slight pickup of several basis points.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here for you. Frank, I am just curious, given that you had adverse reserve development in the E&S segment, I was a little surprised that you took down the loss picks as much as you did this year. I mean it doesn't seem -- and I'm wondering, was there a change in kind of reserving philosophy at James River used to hold picks fairly high and have that adverse development coming forward? Just maybe a little more into kind of the thought process behind how those 2 fit together or if they fit together at all?

Frank N. D'Orazio
CEO & Director

Yes, I can at least start here. I think it's similar to my earlier comments that we have been very conservative in our recent accident year loss picks at a time when we've just done so much relative to additional underwriting oversight and discipline in the organization, have taken a lot of steps relative to exclusionary language. We've gotten out of a number of loss leaders in that specific portfolio over the last couple of years and had given that some time to kind of set in. And so the benefits of those actions plus all the rate that we've taken in these market conditions made us feel comfortable that was an appropriate step to take.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then one other just quick one here. The internal control weakness. Is that something that the rating agencies have been discussed with the rating agencies as well. I'm just curious. I know you talked about the reinsurance transaction, but just the reaction on that.

Sarah Casey Doran
Chief Financial Officer

No, absolutely, Brian. We have a very regular quarterly dialogue with them, and we went through all of that a few days ago, for sure.

Operator

Our next question comes from the line of Meyer Shields from KBW.

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

Congratulations on the Casualty redeal. I was hoping, Sarah, can you for modeling purposes, give us a sense as to the size of the investment portfolio that's being transferred to Fleming?

Sarah Casey Doran
Chief Financial Officer

Sure. The investment portfolio at JRG Re is about $550 million, Meyer. So it's about 25% of our overall portfolio, give or take.

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

Okay, perfect. And Frank, I think in your comments you mentioned pulling back in commercial auto within E&S. It's going to be the -- I guess, ignoring the Uber stuff that's gone, can you give us a sense of how big the current commercial auto reserves are?

Frank N. D'Orazio
CEO & Director

I don't have that in front of me right now. I mean the portfolio itself is not that significant, but I know that's not your question. I mean it's probably about a $30 million, $35 million portfolio. I don't have the reserve numbers in front of me. You're talking about non-rideshare portfolio, specifically?

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

Yes, exactly. Yes.

Frank N. D'Orazio
CEO & Director

Sarah, I don't have it.

Sarah Casey Doran
Chief Financial Officer

I don't have that in front of me.

Frank N. D'Orazio
CEO & Director

I'm sorry, we'll have to follow up with you on that.

Operator

[Operator Instructions] The next question comes from the line of Casey Alexander from Compass Point.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Two questions. One, the sale of the Casualty Re business is also moving a lot of people. How should we expect the expense ratio to develop once the sale is complete?

Sarah Casey Doran
Chief Financial Officer

Sure, Casey. It's actually 6 people, 6 people in Bermuda. So it's a fairly small team. I wouldn't think there would -- there's going to be an impact on the expense ratio because -- more so because of the commission structure in the reinsurance business historically. But as you know that business is running off. So I wouldn't expect much of any impact on the expense ratio going forward.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Okay. Then one other question. Is this -- the $7 million development on the Casualty Re LPT with $38 million remaining, the way that's been developing over the last several quarters argues that you may actually be taking losses on that book again by 2025. Would that be your expectation at this point in time?

Sarah Casey Doran
Chief Financial Officer

Well, Casey, we did announce the transaction to sell the balance sheet. We would hope to sell it -- per our press release, we'd hope to close that transaction in the next quarter. So after -- by that construct, we would not have any exposure to that balance sheet, to that business, starting in the second quarter of 2024 if we're able to close it like along that schedule.

Operator

There are no further questions at this time. I'd now like to turn the call over back to our CEO, Frank D'Orazio. Sir?

Frank N. D'Orazio
CEO & Director

Thank you. I want to thank everyone for their time today and for the questions we received on the call. We certainly look forward to speaking with you all in 2024 to discuss our fourth quarter and full year results. Enjoy the rest of your day.

Operator
This concludes today's conference call. You may now disconnect.