S&P Global
Market Intelligence

James River Group Holdings, Ltd. NasdaqGS:JRVR

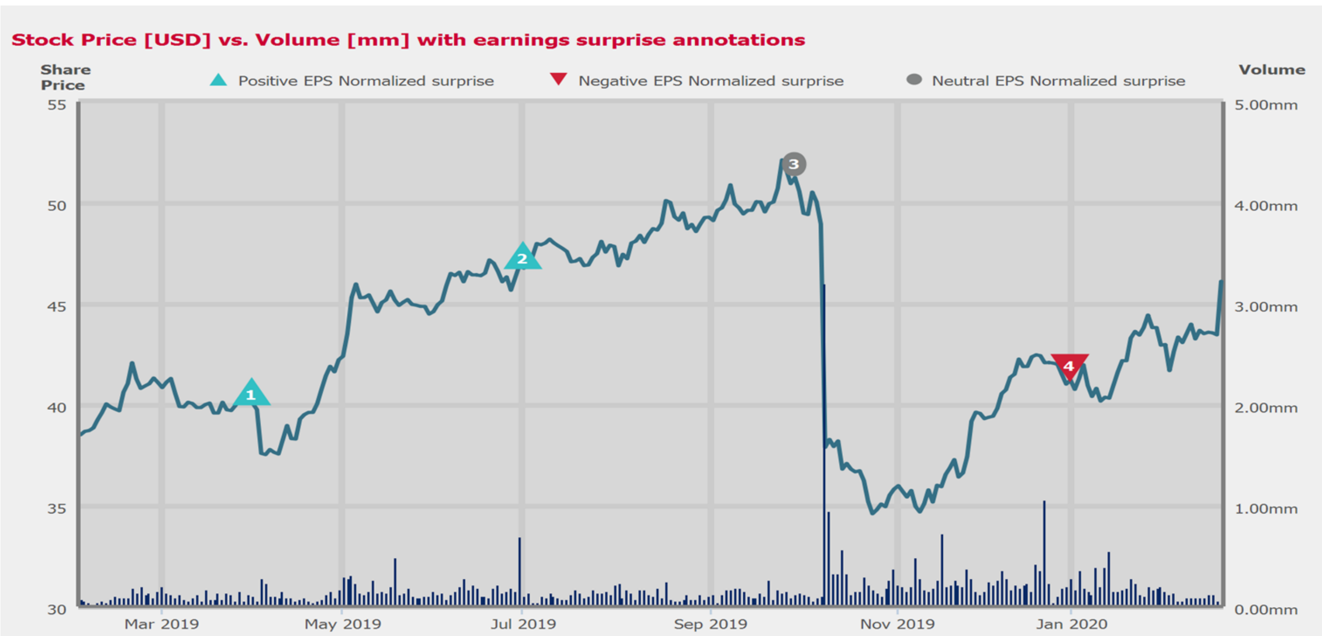
FQ4 2019 Earnings Call Transcripts

Friday, February 21, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.81	0.76	(6.17 %)	0.42	1.43	1.40
Revenue (mm)	242.50	241.15	(0.56 %)	166.60	908.40	907.12

Currency: USD
Consensus as of Feb-21-2020 4:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.63	0.71	12.70 %
FQ2 2019	0.63	0.66	4.76 %
FQ3 2019	(0.92)	(0.73)	NM
FQ4 2019	0.81	0.76	(6.17 %)

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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
SunTrust Robinson Humphrey, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

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

Presentation

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the James River Fourth Quarter of 2019 Results Call.

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

Kevin B. Copeland
SVP Finance & Chief Investment Officer

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

I will now turn the call over to Adam Abram, Chairman and Chief Executive Officer of James River Group.

Jonathan Adam Abram
Chairman & CEO

Thank you, Kevin. Welcome, everybody, to our earnings call. I'm here with Sarah Doran, our CFO; and Bob Myron, our President and COO, and we look forward to taking your questions in just a minute.

First, a few remarks about the most recent quarter of our past year and the markets that we are operating in. We're coming off a very good quarter with strong earnings, significant growth in our most profitable core businesses, attractive rates per unit of exposure and encouraging progress in settling claims arising from the large rideshare account that we terminated late last year. The environment is quite positive. We continue to see very strong submission growth in our core business and are able to write accounts at rates that we think are very attractive.

In the fourth quarter, excess and surplus lines rates on renewal accounts were up 6.6%. That's the 12th quarter in a row we have obtained rate increases. We anticipate this growth in small accounts. The average account size in our E&S business after all is in the low $20,000 range. We'll make up for a significant amount of the rideshare-related premium we left behind last year. The natural diversification in this business combined with the rate increases we are enjoying gives us confidence about the ultimate results to be realized from the business we're writing today. Our Specialty Admitted segment is growing, and we expect that growth to also continue, particularly in the fronting and program area where we take modest risk and earn fee income. We are seeing more opportunities there than at any previous time in our history. We continue to struggle a bit with our reinsurance business. While profitable overall, our underwriting losses are disappointing to us. Nonetheless, our presence in Bermuda continues to create value for our shareholders. Roughly 1/2 of our assets are in Bermuda.

It goes without saying that the runoff of the rideshare account has our attention. We're absolutely open to an adverse development cover if the economic terms are reasonable, and we can continue to manage claims. The management of claims is very important. Bob Myron, along with our Head of Claims, Courtenay Warren, have been highly focused on this process with good results. In just a few months, we have succeeded in lowering claims counts faster than we had anticipated. While we are litigating more claims when we think the claimant is asking for more than owed under the contract, our average cost of claims is going down materially. In other words, our internal claims handling unimpeded by any market considerations other than our obligations under the policies has resulted in our significantly bending the claims curve -- cost curve in our favor. We had 2 external reserve studies performed at year-end, and we did, of course, our own internal work. We feel confident about our reserves and the progress we are making in the runoff of the canceled account reinforces our view.

Our expectation for 2020 is to earn a low double-digit return on tangible equity. As always, we anticipate making an underwriting profit as a group and in each of our segments. It is worth noting that even after the charge we took in the third quarter of 2019, our E&S unit made an underwriting profit in 2019. And of course, our Specialty Admitted segment reported a combined ratio of under 90% for the 2019 year. The combined group ratio came in just over 100%. We usually, at this point, offer a bit of color regarding where we found opportunities, and where we saw potential pitfalls during the quarter. I'll provide some color about which niches we are seeing the most activity in.

There is good news to be reported in both our E&S and our Specialty Admitted segments. The E&S market is the more robust of the 2 right now. And one of the tailwinds we have is that the market -- in the market is that we're being allowed to be more efficient, meaning our quotes for new and renewal business are more likely to be accepted in the current market conditions. Our E&S segment entertained 23% more submissions for business into sales in '19 than in 2018, and 27% more in the fourth quarter than in the prior fourth quarter. Our quote ratio on new business remain basically constant during 2019, but the number of new E&S accounts written rose by 39%. One reason for the increase in submissions is that some significant carriers are pairing large parts of their books where they've lost money in prior years. Much of this business is in classes where we have expertise, but have restrained our appetite for risk until now when we have an opportunity to reprice these risks at more favorable rates. Some of the lines we are seeing more opportunities to quote in are small casualty accounts and in professional liability lines. Of course, as we indicated in our press release, our E&S growth has been across -- all across the board. I'm simply making the point now that we believe the current momentum will continue across a wide spectrum of casualty risks.

Similarly, our E&S renewal book proved stickier than it has been with almost 65% of our policies renewing. This is a few points above the renewal hit ratio we had in the past 2 years. Each of our E&S divisions, other than Allied Health, grew in 2019. In our core book of E&S, which we define as all of our E&S other than Commercial Auto, we wrote 55% more premium in 2019 than we did in 2018. This well price growth is welcomed and we're addressing the opportunity with an eye toward maintaining good control over our book. We've increased our E&S underwriting and support staff, and our claims staff is handling the same claims load per adjuster, as we have maintained since 2013. Of course, we are deploying more sophisticated technology to assist in setting up submissions for review by our growing underwriting staff.

Our Specialty Admitted segment saw a more modest growth in our E&S division, but if we laid the foundation within Specialty Admitted for more substantial growth in the 2020 year. Our individual risk Workers' Compensation business grew by 15.1% as we expanded territory slightly and also distribution. We continue to see strength in our individual risk Workers' Compensation reserves. We're taking a cautious approach to our individual risk Workers' Comp business during the coming year. While lost costs do seem to be benign, rates are declining, and we plan to manage the cycle very carefully.

Our fronting business, other than our single largest account in California, grew by 51%. We expect this part of our business will continue to expand as we are adding deals, many of which are just beginning to generate premium for us. In collaboration with the producer, we purposefully contracted the account in California because of market conditions and premiums in that program were down 27% in the quarter. The reduction in this account somewhat masked the momentum we have in our fronting business and all the Specialty Admitted segment grew by 3% -- 3.6%. However, during the year, we added 4 new programs and anticipate 2020 will see more growth. I would remind everyone that we typically retain only 5% to 10% of the risks on these accounts and earn fees from fronting.

I mentioned earlier that our reinsurance segment had a tough underwriting year. We wrote $160.8 million in premium there and anticipate remaining flat to maybe down in 2020. The majority of our business there is third-party quota share in E&S accounts. And we have paired it back by 50% over the last 2 years, shifting the mix of business away from lines and structures we previously wrote such as nonstandard auto and excess of loss. While it grew with it compared to the prior year quarter, this is due -- the growth is due to the growth in the underlying E&S treaties we are party to and similar to our audit premium. The account goes up, and we go up with it.

With that color, I'd like to turn to Sarah and ask her to add her thoughts and insights about the quarter and the year passed.

Sarah Casey Doran
Chief Financial Officer

Thanks, Adam. Let me highlight a few of the financial points for the quarter. Last night, we reported fourth quarter operating earnings of $0.76 per share, an increase of 35% over the prior year quarter. The result reflects very attractive growth in our core E&S business and benign loss activity across our insurance businesses. Net earned premium grew over 16% in our Excess and Surplus Lines segment this quarter and about 40% in our core E&S business alone. The E&S segment represented over 76% of our total group net earned premium. From an underwriting perspective, this quarter we posted a loss ratio of 77.4% and accident year loss ratio of 73.4%, which was consistent for the full year.

In 2019, our continued high accident year loss ratio reflects our cautious approach to reserving as well as the higher relative loss pick of the Commercial Auto book, which was 36% of net earned premium for 2019, following the cancellation of our largest account in October. We did not experience any material reserve development in our Commercial Auto line. The runoff what was formerly our largest account is performing within our expectations, as Adam mentioned earlier. Our calendar quarter reported loss ratio was considerably lower than that of the fourth quarter of 2018. While we continue to receive new claims since we are off risk as of December 31, 2019, the number of reported claims has slowed, and we are actively working to close claims for fair value.

At year-end 2019, open claims for all years of the account represented 5.2% of reported claims for the same period. At the same time last year, open claims for all years of the account represented 7.2%. So we are closing claims quickly. Of our appropriately -- of our approximately $1.4 billion of total group-wide net loss reserves at the year -- end of the year, approximately $400 million of that supported our Commercial Auto book of business. And that is split roughly 50-50 between case and incurred but not reported reserves.

We added worst loss development of about $9.8 million in our Casualty Reinsurance book, which is disappointing to us. But it's worth mentioning that about half of this was offset by sliding scale commission adjustments, which come through in the expense ratio. A meaningful amount of this loss was due to one loss from the 2010 treaty year, with the balance due to higher-than-average claims volumes related to several accident years. We are off risk in the majority of these accounts. We also had a $1 million takedown of reserves from our individual risk Workers' Compensation book.

Moving on to expenses. Amounts accrued under bonus and compensation expenses were significantly less this quarter as we reduced bonus pools for senior management, given our overall performance this year. This had an effect on the expense ratio in every segment and, of course, the group-wide expense ratio for the year -- the quarter and year.

Turning back to cash flow. We continue to enjoy strong cash flow from our businesses as operating cash flow was $76 million this quarter and about $290 million year-to-date. We earned $20.8 million in net investment income this quarter, an increase of 34% from the prior year quarter. The increase largely resulted from the October 2019 addition of approximately $1.2 billion of restricted cash that was previously held in a collateral trust, off balance sheet, posted by a former insured. These funds are invested in short-term government securities, and we hold them on our balance sheet as restricted cash with the corresponding fund held liability. The agreements we have in place with our former insured provides that the required collateral increase or decrease depending upon loss development. We currently expect that the required collateral balances will decline over the next 2 to 3 years, given we are no longer writing new risks on this account. Since January 1, 2020, we've already returned about $70 million of collateral to the former insured, and therefore, would expect it to continue to decline over the course of the year.

We increased tangible equity over 14% for the full year, despite paying almost $40 million in dividends. Our balance sheet and capital position are well able to support the attractive growth we continue to see in our core E&S business and additional opportunities for growth we are realizing in the Specialty Admitted segment. As Adam mentioned, we expect to earn a double-digit operating return on tangible book value per share during 2020. Our opportunities to put capital to work at attractive returns for our shareholders are plentiful. Our topline will likely be down modestly in 2020 from where we ended 2019. We expect that our expense ratio will be higher in 2020 without the large account concentration, but our core E&S business has typically produced a lower developed loss and combined ratio that has our Commercial Auto book, building a case for a compelling group-wide loss in combined ratio. We are and will actively and carefully manage expenses over the next few quarters as we continue our work to runoff the Commercial Auto book.

And with that, I'll turn the call back to Adam.

Jonathan Adam Abram
Chairman & CEO
Thank you, Sarah, and we're happy to take questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I just have a few questions. I actually wanted to start with the Casualty Re segment. And Sarah, you mentioned that kind of a big piece of the $9-and-change million adverse in the quarter was from a 2010 treaty that popped. What sort of risk was that?

Sarah Casey Doran
Chief Financial Officer

That was a casualty risk, a large account casualty risk.

Matthew John Carletti
JMP Securities LLC, Research Division

Large account casualty. Okay. And then, Adam, you mentioned in your comments about the growth there that you'd expect it to be flat, possibly down a little. And I was hoping you could give us a little bit of color how that might shape over the year? Because I know you mentioned kind of the E&S -- I don't know what the right term is, let's call it, kind of audit premium as it grows closer to you. I'd imagine there is still some potential for that. And I believe you also have a new fronted relationship there. I don't know if that's kind of all in apples-to-apples at this point or if that is still going to impact the early quarters of 2020. Just a little help in kind of how that might shape over the year would be helpful?

Sarah Casey Doran
Chief Financial Officer

Yes. I'll take that, Matt, I think, on the new fronted relationships we started out last quarter, and we expect that to continue to run over the course of next year. But I'm not sure if there was an earlier question there. We're certainly managing the growth or the lack thereof. I mean we did -- we had the underlying E&S treaties have grown and that's what you saw this quarter, specifically with regard to the growth versus the fourth quarter.

Robert Patrick Myron
President, COO & Director

Yes. So you're exactly right. I mean, we're -- the book is now 81% small account at the E&S and that is obviously an area where we're seeing growth in our primary operations. And therefore, we would certainly expect to see -- we know that underlying cedents are getting rate increases, and they are obviously getting an exposure of increases and a lot more opportunities as well. So I think we've got to do a careful job of managing the profitability there. There's obviously a relatively simply contractual way to manage the growth there, so to speak, by putting premium caps in the underlying -- in our reinsurance treaties, right? So to the extent that they're writing a lot more business than they originally anticipated or were sort of expecting from a budgeting perspective. You can manage that through a premium cap and then you can make a decision to raise that or not along the way. So I think -- and to the extent you do, maybe there's a good reason to do it because of the type of business that they are producing and the expectation profitability or maybe you don't, or maybe there's a small concession that you can extract by raising it. So that is a -- it's not as though, it just couldn't, well that certainly happened to us as result of premium adjustments, and we won't have control over it.

Jonathan Adam Abram
Chairman & CEO

Matt this is Adam. Yes, probably, you almost certainly know this but 80% of that book, I think Bob mentioned this already is E&S Casualty small account, and it's a good time to be reinsuring those accounts, so that's positive. Almost 3/4, a little less than the 3/4, so that account of the -- accounts and the reinsurance group have sliding scale commissions, which protect us and just -- over 95% of it's proportional. So we -- I think we can manage it within a small band, but there is some -- there has to be a little bit of elasticity there. But we have other protections that are substantial, and we're in a market, and our clients are in a market, which is currently pretty positive. But we don't plan for this to be a large -- it's -- we're going to take our E&S play on the primary side, for the most part.

Sarah Casey Doran
Chief Financial Officer

Yes. And to just finish addressing your specific question on the pop. It was a general casualty account, but it is a larger account that would be no longer our focus in the book, Matt. And I think I said it or Adam said in his prepared remarks that roughly 70% of the adverse development this quarter came from accounts that we no longer write. So I think that's an important part of the way that we've shifted this book over the last 2 years.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. That's really helpful color. And then just -- there is one numbers question, if I could. For full year 2019, I guess, can you provide us with -- just to help us really for modeling going forward. In the E&S segment, what was the accident year loss pick for the year for those 12 core E&S lines?

Sarah Casey Doran
Chief Financial Officer

Yes. It was, I would say it was in the -- trying to avoid a specific number, but right around 70%.

Operator

Our next question is from Mark Hughes of SunTrust.

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

So when we think about the investment income, what's a good bogey for Q1? The extra funds came in, I think, in October. Obviously, the yield on those are a little lower. You're starting to see the runoff. At least kind of what's the Q1 marker? And then we can calculate the tapering from there.

Sarah Casey Doran
Chief Financial Officer

Yes, that's a great question. I think where we came out, all things being equal, we were off a little bit in the privates in the fourth quarter and the investments of the additional $1.2 billion that we've got on balance sheet now came in into the quarter. I think that $20 million number is not an unreasonable number for the quarter, Mark. So it's a decent run rate in the fourth quarter going forward.

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

And then in the -- I don't know if this is too close in, but when we look at the core E&S or E&S on a go-forward basis, excluding the large account, what do we think about the ceded premium ratio that has kind of bounced around a little bit? Been a little bit higher lately, but clearly, that has been influenced by your strategy with the Commercial Auto. So when we think about 2020, any sense of would that number ought to be?

Sarah Casey Doran
Chief Financial Officer

Yes. And it will really depend on the growth in the excess casualty line, because that's where we see a fair amount, and we've had a lot of growth in that line in this run over the last 4 or 5 quarters. But at a high level, I think of anywhere from -- we'd see it anywhere from 20% to 30% of that book overall. The core books, Mark.

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

Okay, very good. And then in the Specialty Admitted, and I'm sorry if I might not have picked up from your earlier conversation. But when you take into account the moving parts, business outside of that large account, the step down here lately. What does the Specialty Admitted top line look like? Is that -- I think it's been mid-single digits lately. Does it get better from here, all things considered?

Sarah Casey Doran
Chief Financial Officer

No. I think that the big impact over the course of this year is that, that large account shrunk by about 25%. And we don't -- we're not anticipating that it's going to shrink by another 25%. We think it would be -- it's at a good level now. We've taken the rate decreases. We've made the moves that we wanted to on that account. And Adam, I don't want to jump over you, I'm sorry. I was just continuing from before. But we would expect there would be good growth opportunities now moving forward. Because at the end of the day, we're basically flat from last year, despite taking that lag down on a large account. So I think that shows what Adam was saying, really good momentum in the rest of the fronting business.

Jonathan Adam Abram
Chairman & CEO

Exactly. And we've already added some programs that are just beginning to produce premium. And we think based on the conversations that are being held in that segment by the segment leader there, we see more business being added during the year that will come on in the second, third and fourth quarters of this year. So we -- 2 things. One is, we think we will grow, but we think we're also setting the stage for additional growth, even further down the road. So we'll grow this year, and then the stage should be set for continued growth. And remember this is the line, and I know you know this, Mark, but this is a segment where we tend to take less underwriting risk and to be very focused on the fee income, which has a high IRR or ROTE for us.

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

And then just one final question. I'd be curious, any uncertainty, general ideas you might share when you talk about -- you're pleased with some of the settlement activity in the Commercial Auto. I know one of the challenges has been the social inflation and higher damage awards, and it sounds like you're getting -- making some progress on that. Anything more you could say on that front to give us some context?

Jonathan Adam Abram
Chairman & CEO

Yes. We -- I mean, I think -- and if Bob wants to chime in here, I would invite him to do it. But let me just start by saying that we are aware, of course, of much of the commentary that we're hearing in the industry about social inflation, and we are looking very hard and assiduously for it in our book. And to be honest about it, we're not seeing it in our reported claims development, we're not seeing it in frequency, and we're not seeing it in in average claims resolution cost. And we are not seeing it in the Commercial Auto runoff book that Bob has been really very constructively focused on and has had great success. And Bob, do you want to add anything to that?

Robert Patrick Myron
President, COO & Director

I wouldn't add a lot more. I guess I would just agree with Adam's comments. I think that our -- the nature of that accompanying runoff and then in runoff and then with respect to the rest of the book of business.

I mean with the small account casualty type of business, we just have really not seen social inflation pervasively. We had a very good quarter from a loss emergence perspective overall. When you look at the group in terms of reported loss ratios, we've looked into some of the details around this around percent of claims that are in litigation and the like. And we're just not seeing a trend in our book of business. And so I think it's tough for us to say, but I would attribute it to more medium and larger-sized accounts. I think all these bigger limits, and we're just not -- we don't have a tremendous amount of exposure to more traditional Commercial Auto where I think a lot of people have seen that, too.

So all in all, I think we're seeing pretty benign loss trends, and they're not terribly concerned about social inflation. But I think it would be remiss of us to not be very focused on looking out for that and we and I are staying in very close contact with our claims group in this regard.

Operator

Our next question is from Randy Binner of B. Riley.

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

I wanted to just ask some questions about claims because it seems like in your opening comments, you attributed some of the kind of benign or flat results on reserves in the Commercial Auto runoff to that. So can you outline what some of your process changes have been there? Do you have more adjustors? And can you quantify the change in closure rates that was mentioned in the opening comments?

Jonathan Adam Abram
Chairman & CEO

Randy, this is -- we want to be respectful of all of our clients, and we just really avoid getting into conversations where we would be revealing things that are central to customers' business. That's part of our promise and relationship with them. So I really don't want to go deep into any single account. I will say this that we've got a runoff book. We've got tremendous amount of focus on getting accurate information about each claim to evaluating first and then valuing each claim quickly to rapidly paying and closing amounts that are owed and being assertive under the -- in the context of the policy terms and conditions about sticking with the policy terms. And I think that the total claims count, we're moving through claims well. The total claims count, I think, outstanding claims is lower today than I had expected it to be at this point in our development. We are -- it is true that more of these claims are going to arbitration and litigation than previously, but previously, that was a very rare event. And now it's just consistent with the standard practice in our company and across many companies in terms of the percentage claims that are -- where we have to get someone who wears rose to determine what's the right amount owed or if any amount is owed. So this book is now being handled in a very customary way, and to a really good effect.

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

Okay. And then I just had one on programs. I guess can you -- it seems that you're adding programs for fronting. Fronting programs. Can you just review for us or talk about the market dynamics around the demand for fronting arrangements in light of what's a soft Workers' Comp pricing environment, in particular, but kind of a somewhat soft casualty lines pricing environment overall.

Robert Patrick Myron
President, COO & Director

It's Bob Myron. I'll go first. I think all of or nearly all of the new opportunities that we're seeing are not really in the Comp area. And I would say that the demand for this product, so to speak, and the way we do it, which is we have a lot of involvement and -- in both underwriting processes as well as claims, both in terms of establishing guidelines as well as oversight. And that's important to the reinsurers in this space, no question, and that's our key value proposition in this area. And so I think the demand for that is high, there is a recognized value in doing that. And then I would just say more generally and qualitatively, Terry McCafferty, who is running that segment for us is getting -- has a robust pipeline, and he's getting an awful lot of overtures in that space for really sort of existing deals that are in force that could potentially move to us a relatively meaningful size. It's much less about when we first got into this business 8 years ago, sort of start-up programs and the like. So that gives us -- there is a lot of optimism there, too. And in terms of the opportunities that Terry is seeing, he's doing an awful lot of traveling, but very little of this is sort of outward marketing. This is a lot of stuff that's inbound to him, and then he's going out and seeing people and trying to evaluate these deals. So the shingle has not really been sort of hung out in terms of trying to go out and pound the pavement and drum up business. It's just naturally coming to us.

Jonathan Adam Abram
Chairman & CEO

And a fair amount of this business, fortunately, is coming to us from our reinsurance partners. Who are seeking to get a little closer to the primary risk position, but value our contribution in terms of overriding oversight claims administration, et cetera. And so these are, in many cases, what we're looking at now are established programs brought to us by partnership by both the MGAs and their -- and existing reinsurers on that book. So we really like that combination. It's -- we provide a service that is valued all the way around and they're bringing business that we think is attractive and sustainable and has a long history and also has enough scale to be really -- the larger scale there is very attractive of each of these larger programs.

Operator

[Operator Instructions]

Our next question is from Meyer Shields of KBW.

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

I want to start with a big picture question. I know there is a lot on -- depending on the insurance company in question, there is a lot of commentary about whether this is or is not a traditional hard market. But in the core E&S market -- sorry, in the core E&S segment, it looks like we're seeing really, to say, very difficult impact of rates and maybe some standard companies pulling out. So I want to sort of draw on your expertise, Adam, say, in those product lines, does this seem like half our market? Is there any major difference?

Jonathan Adam Abram
Chairman & CEO

You faded out for just one second, but I think your question is, does this seem like a hard market, a traditional hard market. And yes, I think it does. It's beginning to have that warm feeling of a market where capacity is challenged, and there's a lot of business that's in the market that's looking for a home and has been thrown out someplace else and is going to get repriced in a significant -- with significant increases. And so -- and changes in terms and conditions in some cases. So yes, in answer to your question, it feels to me like we’re in a very positive, strong market position, and we're seeing it in terms of the submissions that are coming to us. We're seeing it in terms of our hit ratio, and we're -- that is on new submissions, and we're seeing it in terms of our renewal ratio on our existing business.

So all of the -- end rate. So all of those things are positive. They all point to lack of capacity in the market and an ability, on our part, to service that market and to get good rates and good terms.

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

Okay. Fantastic. Second, E&S question. With regard to the ceded reinsurance, is pricing for that changing in any significant way?

Sarah Casey Doran

Chief Financial Officer

And this our third-party business, Meyer? Just to be clear on...

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

No. The reinsurance segment volume on the E&S book.

Sarah Casey Doran
Chief Financial Officer

Yes. It hasn't -- our treaties renew throughout the year. But we -- so our last significant renewal there was -- is more so in the midyear process. And we have seen very consistent rate stability there. We haven't had material increases, some think we've really had increases, and we haven't materially changed the structures at all. Our business has performed well. So I think our counterparties have performed well with us. So we don't anticipate anything there, and we haven't seen that yet.

Robert Patrick Myron
President, COO & Director

Yes. And -- so this is Bob Myron. And with the expiry of the Commercial Auto account, that reinsurance -- that ceded reinsurance on E&S is almost entirely -- it is entirely excess of loss. There is no proportional business. And I agree with Sarah, that's a July -- there is a June and there is July. June and July renewals, and we have not -- we saw a very reasonable renewal rates back then. And yes, we've had the reinsurance of a good loss experience. So I'm just repeating what she said, and so that's definitely part of it.

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

No, that's very helpful. And then final question, sir. I know there are so many moving parts going from 2019 to 2020. I was wondering if you could give any rough guidance on normalized tax rate for 2020?

Sarah Casey Doran
Chief Financial Officer

Yes, that's a great question because obviously, there was a lot of noise to our tax rate over the course of this year, Meyer. But I -- given -- I think Adam said that roughly half of our assets, our invested assets remain in Bermuda with the Casualty Reinsurance business and other kind of intercompany structures we have. I would think about a tax rate in the mid-teens. So a decent savings from the U.S. rate, but I would -- that's ticked up a little bit over the last 2 years as we have more assets onshore. But we continue to have a good balance on the island. So mid-teens is where we'd come out.

Operator

We no longer have a question in queue. I would now like to hand the call back to our presenters.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Thank you, operator, and thank you, everybody, who has participated in the call as -- by asking questions or listening. We appreciate your following our company. We appreciate your interest in it, and we hope to see you, our shareholders, out on the road over the course of the next many months. And we will be reporting in next quarter, and we look forward to that as well. Thank you.

Operator
This concludes today's conference call. Thank you all for attending. You may now disconnect.