S&P Global
Market Intelligence

Argo Group International Holdings, Ltd.

NYSE:ARGO

Special Call

Friday, March 12, 2021 3:00 PM GMT

Table of Contents

Call Participants

EXECUTIVES

Brett Shirreffs
Head of Investor Relations

Kevin James Rehnberg
President, CEO & Director

Scott Kirk
Chief Financial Officer

Thomas A. Bradley
Independent Chairman of the Board

ANALYSTS

Charles Gregory Peters
CIMB Research

Matthew John Carletti
JMP Securities LLC, Research Division

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Ron Bobman

Presentation

Brett Shirreffs
Head of Investor Relations

Welcome to Argo Group's Investor Update. Presenting on today's call will be Kevin Rehnberg and Scott Kirk. Kevin is Argo's Chief Executive Officer; and Scott will become Argo's Chief Financial Officer following the filing of our 2020 10-K with the SEC. We also have opening comments from Tom Bradley, Nonexecutive Chairman of the Argo Board of Directors.

This presentation is being recorded and a replay will be available in the Investors section of our website along with the presentation.

As a result of this presentation, Argo management may make comments that reflect their intentions, beliefs and expectations for the future. Such forward-looking statements are qualified by the inherent risks and uncertainties surrounding future expectations generally and may materially differ from actual future results involving any one or more of such statements. Argo Group undertakes no obligation to publicly update forward-looking statements as a result of events or developments subsequent to this call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC. Please also refer to the company's Form 8-K filed with the SEC earlier today.

I will now turn the call over to Kevin Rehnberg, President and Chief Executive Officer.

Kevin James Rehnberg
President, CEO & Director

Good morning, and thank you for the introduction, Brett. Welcome to, everyone, on the Argo Investor Update Call.

Before we get started with our presentation, I want to address the 8-K that was filed this morning. As previously announced on March 1, the filing of our Form 10-K was initially delayed due to unforeseen consequences of the winter storms in San Antonio, Texas, the company's primary financial reporting center. As we finalized our financial statements during this period, we identified several immaterial items that needed correcting, resulting in a change from our earnings press release we issued in February. These changes have a small impact on the combined ratio, operating income and on the balance sheet as well as changes that impacted foreign exchange and tax-related items below the line and are the result of corrections mainly to intercompany transactions. These nonmaterial errors will be reflected in the 10-K for the impact on current and prior years. To be clear, there are no material misstatements identified in the company's previously issued financial statements.

In addition, we reevaluated our assessment of internal control over financial reporting and concluded that certain design and operating effectiveness efficiencies in the company's internal controls, when evaluated collectively, aggregated to a material weakness in internal control related to the processes identified in the 8-K.

I have committed to you that we are a transparent organization, we are aligned with shareholders' interest and as the leader of the organization, I will be transparent. So we have already begun taking steps to remediate these issues. Additional details will be provided in the company's Form 10-K, which the company intends to file prior to the end of the permitted 15-day extension period.

Now let's turn to the beginning of our presentation. I'll refer to certain slides at various points in my prepared remarks. The leadership team of Argo is very excited to present our vision for the future of the company. Today's presentation will provide additional insight into Argo's strategic vision and how we are executing on that plan.

The purpose of this investor update is to share the road map of how Argo will achieve its stated goals. The execution of our strategy has 3 primary goals: growth in earned premium, reducing volatility and expanding our margins, generating higher earnings. During the course of the presentation, we will provide additional detail as to how we will achieve those goals.

The entire management team is incredibly excited about the future. We are positioned for success. However, there's a lot of important work yet to be completed. I am highly confident we are moving in the right direction. We have the right business mix, a talented workforce with invaluable skills and we've taken comprehensive action to secure leading positions in our specialty markets. The additional details of how Argo's specialty platform is evolving will provide insight into how the company will look in terms of business and financial profile as the transition continues.

During the presentation, you will hear about the transition across all areas of the company: business line optimization, underwriting improvement, expense management and technology enhancements.

It is my privilege to introduce Tom Bradley, Nonexecutive Chairman of the Board, for some introductory comments ahead of the main presentation. Tom?

Thomas A. Bradley
Independent Chairman of the Board

Yes. Thank you, Kevin. It's an honor to be here today and a privilege, and I'll add my greetings to all the participants and my thanks for your participation and interest in Argo. I've been a member of the Argo Board for a little less than 2.5 years and, I have to say, amazed at the significant transformation of the business that has occurred under Kevin's leadership.

You'll recall 1 year ago, we have took a fair amount of governance updates, governance improvements relative to the Argo Board, that included shrinking the Board size from 13 to 11, declassifying the Board, all shareholders now elected every year. And we also had the 5 longest-serving members of the Board retire and we added 3 new members of the Board and I became Chair at that point. So this is a -- we call it a refresh Board. It's a very refreshed Board. But I need to report to you that this is, in the past year, as we've met virtually in every meeting, this Board is highly functional and very engaged in its responsibilities and in the company, and I can assure you many spirited discussions across a variety of topics over the course of the year.

I want to start out to affirm that this Board is aligned with shareholders. We have fiduciary responsibility to a number of stakeholders, and I'll get to some of that later, but we work for you and we are focused on shareholder value.

As Chair, I use the concept that I picked up from somewhere, that the Board's responsibility is noses in, fingers out. We are not here to micromanage Kevin and his team, but we are very inquisitive about the goings-ons in terms, particularly in a couple of key areas that I'll get to. There have been times where we've asked Kevin to speed up and other times to slow down. But when it comes to these key business areas, like, for example, the development of the vision and the strategy culminated with what you're going to hear today. That has taken place really over the course of the year on a number of meetings. Particularly outside of the usual quarterly meetings, we've had a number of special or separate meetings, to allow Kevin to bring his evolved thinking to the Board, get our input, our feedback and our pushback on where we are.

Kind of the first exposure with that was at the third quarter earnings call when Kevin started talking about the expense initiatives and giving some visibility into the future and kind of culminating with where we are today. And relative to this, the full Board met a week ago to review this presentation with Kevin and Scott and give feedback and guidance and support to this process.

Another area that I consider kind of Board level that we're actively involved in are kind of the setting of financial targets and capital stewardship. The outgrowth of this strategic planning process obviously includes the financial plans and creating a robust plan for the year that can be used to manage accountability, both for operating accountability and compensation is very important. But likewise, all of the capital matters, capital accumulation -- capital allocation, capital structures, usage of capital are also important. The Board was directly involved in the issue to issue the preferred stock back in July as an important part of our capital structure. The Ariel Re transaction, which is a big transformation for the company. And things we do going forward relative to capital allocation and uses of capital will be important forward-focuses in the future.

Also, and the Board has been able and has been happy to also engage in a fair bit of shareholder engagement. Part of it, frankly, emanated from the fact of the -- our Say on Pay Vote last year, while it passed, it was not a compelling vote. So we -- while we have consultants who tell us the right things that we need to do, we wanted to hear from shareholders. We took a formal outreach in the fall with myself and other Board members to talk to shareholders, to make sure we're hearing that we're touching base on the right issues relative to executive comp. And this year, in the past year, we've rolled out new longer-term incentive plans with increased performance periods, but specifically tied to ROE and growth in book value, which we believe to be prime drivers that align the company's compensation plan with shareholder interest.

But we also took this opportunity to talk to shareholders on noncomp issues. I love it when I get the opportunity to just talk about the business, talk about the strategy, talk about where things were going. And those conversations I've been had

-- been able to have over the course of the year have been very enlightening to me as well, sitting at the Board level and not within management. So I want to finish with that slide by, again, asking you to rest assured, this Board is aligned with shareholders.

We also, as I mentioned, take our corporate responsibility matters very importantly. I mentioned we have other fiduciary responsibilities, and many of these fall into the ESG areas. And during that shareholder outreach, we heard from a number of investors how important it was for us to -- how important it is for us to have a formal approach to ESG matters that's formal and thoughtful. And I think this goes along several different axes. We're committed to enhanced disclosure of these issues. We published our first ESG annual report in 2020 and the 2021 report is due shortly. We published our ClimateWise report. And we have enhanced disclosures elsewhere, 10-K, proxy, financial conditions reports.

We are committed internally and externally to improve our social impact. We've implemented a formal diversity and inclusion program. This is obviously internal within the company, but it is a Board matter. Formal reports and updates and critique from the Board as an agenda item twice a year. We've introduced paid caregiver leave and increased work flexibility, sponsoring the Spencer's Foundation diversity scholarship. And this year, Argo is a signatory to the UN Principles for Responsible Investments. These are just a few of our commitments, and we'll continue to invest in and give back to our community.

I already addressed a number of the governance issues in my prior comments. And there aren't a lot of objective ways to think about ESG and what we're doing, but one objective that did come out this year is the MSCI Ratings on companies' ESG take-up. And we're happy to say, we rate improved from B2B plus, primarily on the corporate governance changes and the responsible investment initiatives that we've undertaken. We realize that it's early in this journey on ESG, but particularly that this journey is a continuous one, as societal needs evolve. But we will stay on top of that and continue to monitor that.

So I know the real reason is to hear from Kevin and Scott about the business. So I'll turn back to that. But as I do, I just want to say, as Chairman, I want to let investors know that the Board fully supports this transformation plan and we are confident that it will create significant shareholder value.

So it's now my privilege to turn it back to Kevin.

Kevin James Rehnberg
President, CEO & Director

Thanks, Tom. Argo is a focused -- U.S.-focused specialty insurer and a leader in some very profitable specialty lines. We are well-established in our chosen markets, with competitive advantages in key segments, which will translate to strong financial performance. Our objective in each business is to have that business perform at or near 90% combined ratio, with an objective of a double-digit return on the capital allocated to that business. Our focus is in areas we believe we have the ability to grow at a double-digit pace over the long term. And in many of our businesses, we have done that. With all the actions we have taken to date, through resource application, underwriting and claims improvements and business exits, we expect to achieve these objectives by the end of 2022.

Let's now please turn to Slide 8, and I'll introduce our leadership team. I have been in the role of CEO for over 1 year. I have 8 years' experience with Argo and 32 years in the insurance industry. Scott Kirk, our new CFO-to-be as soon as the K is filed, has been with us for a little over 1 month and has more than 20 years in the business.

Tim Carter, our Chief Underwriting Officer, has about 1 year in his current role and about 1.5 years with the company, while having 32 in the industry. Allison Kiene joined the group at the end of the third quarter 2020 as General Counsel, and she has 14 years of industry experience.

And Andy Borst has been with us for 7 years in a variety of business and operations roles. He has served as our Chief Administrative Officer for the past year after having served in that CIO capacity for both our U.S. and International segments. Andy has 25 years of industry experience. And Matt Harris has been with the company for 4 years, serving in his current role as Head of the International business for the past 2 years with 30 years in the industry.

Turning to the next slide. We round out the leadership team. And as you can see, some of the executive leaders are relatively new to Argo but most have 5 years or more with Argo, and all of them have several years in the industry, showing the depth of experience the management team has.

So turning back to our business as a U.S.-focused specialty insurer. Our business today is comprised of 3 main platforms: our U.S. operations, which represent approximately 2/3 of our business; followed by Syndicate 1200 and Bermuda Insurance. These platforms are all focused on U.S. specialty risks, which is an area where we have demonstrated our expertise and the ability to generate attractive underwriting margins and returns. It's important to understand that the U.S.-based customers seeking insurance source coverage through non-U.S. channels, primarily Bermuda and London, when different capacity or coverage is needed.

Many U.S. specialty risks are placed in either or both of the Bermuda and Lloyd's markets, and Argo can participate in those markets because the company has a strong presence in London through Syndicate 1200 and in Bermuda. Our U.S. operations are incredibly strong, offering differentiated E&S coverages as well as having a well-established specialty admitted platform. Argo has a long history of profitability and growth in the U.S. market.

So let's turn to the next slide and answer a question that's -- should be posed more often and that is, what exactly is specialty insurance? To me and to our organization, specialty insurance is a specific product coverage or coverage for an industry group in which underwriting, claims or risk management expertise is valued by the customer. Additionally, there are specialty brokers that are dedicated to those risks and insurers who value the products and services offered by the carrier.

So with that in mind, as we think about our competitive advantages, we have -- Argo has been and continues to be successful in the specialty insurance market because we have deep expertise and relationships across the full spectrum of producers handling the business. By that, I mean wholesalers, retailers and MGAs or program producers.

In the specialty market, customers are not just seeking insurance coverage. They want a business partner in transferring or managing their risks. Those insured by Argo rely on our industry expertise to help their businesses survive and thrive. We offer innovative and customized solutions for our insurance needs. We can provide comprehensive solutions quickly because our senior underwriters are empowered to make decisions. And we are able to attract top industry talent because of our dedication solely to the specialty insurance business.

Our responsiveness to customers is a hallmark and a competitive advantage, allowing us to win and maintain business. And this service has been enhanced over the years by our commitment to digital capabilities. Managers are rewarded for their successes and held accountable for their shortcomings, all within a corporate framework that checks and controls the carefully managed aggregate risk.

So turning now to Slide 13. We'll go through the vision of our transformation. Has several key priorities that are expected to lead to better financial results. When we think about optimization, Argo has a collection of great specialty insurance businesses where we are a leader in multiple specialty lines, such as New York Construction, Surety and Argo Pro.

There are also businesses that we recognize are not currently meeting our return hurdles and that do not have the prospect of achieving reasonable scale or profitability. We have taken decisive action to exit those businesses that we don't believe will meaningfully contribute to earnings.

We recognize that while our transition is underway, the great progress we have made to date in terms of optimizing the business and positioning Argo for future growth is being masked by our legacy costs and runoff businesses.

There are also some businesses that have underperformed but, in our view, have potential to be profitable in the near to medium term, which we are remediating. These actions generally include higher rates or better terms and conditions, which will reduce our exposed risk and improve profitability. If we can't obtain the results we require, we will exit the line or business, and we have several examples of this.

More importantly, we also have several significant businesses that are performing very well, have solid underwriting margins and are commanding strong rates. We will devote additional resources to those businesses in terms of personnel, capital and technology to grow the business and build out our franchise.

With respect to underwriting focus, with the hardening market, we are actively pursuing and obtaining higher rates and better terms and conditions. The current market conditions allow us to write more premium while maintaining or, in some cases, reducing the amount of risk exposed. We expect this to lead to increased underwriting profitability while limiting volatility. On the efficiency front, you will hear later in the presentation we have a number of technology efforts underway, and those are improving our process flows and will achieve enhanced productivity.

Finally, where the real piece matters is the financial targets. We have multiple levers to pull to accelerate business growth and expand margins. Optimizing our business mix, tightening our underwriting and improving efficiency will improve our operating metrics that allow us to achieve our financial target.

So let's get into a bit more detail about those things. Our business line optimization process. I know this is a busy slide, but it really is at the heart of what we do. We continually assess our businesses based on 3 characteristics. First, the competitive standing within the specialty line of insurance or business that we're in. Does Argo have a unique expertise? Are we offering a differentiated product? And are we getting the result we expect?

Then we look to the growth potential. Is the business at scale or scalable? Which for us generally means $100 million to be a stand-alone business. Can we continue to grow the business to make sure it's a meaningful contributor to our bottom line?

Next, we take a look at the current market events and evaluate rates and terms, whether the market conditions are allowing us to write profitable business.

At a very high level, these 3 characteristics shape our decision process on what resources the business needs to expand, be maintained or, if necessary, remediated. If remediation is not successful, we will then exit the line of business.

Under all market conditions, we seek to preserve our flexibility, and that is important because it allows us to adjust quickly to market opportunities in changing environments. We have a structured framework to review all our business and product lines on a monthly and quarterly basis. The business evaluation is a dynamic and disciplined process where we apply a series of metrics to assess the businesses.

Let's please now turn to Slide 15. We have several specialty lines where we have a leading position, the opportunity to grow those businesses and we are adding resources to actively pursue those opportunities. We will take decisive action in terms of aggressive remediation measures, as I mentioned earlier, to fix the underperforming businesses and exit those if we need to. We have the ability, and this is important, to dial up or down the size of a business based on market conditions because we're able to maintain that flexibility because we are not overly dependent on any one line or any one coverage or any single business unit. We are known for our specialized expertise, our insurance and our partners, and it's our deep relationships that make Argo a preferred provider. We dedicate more resources towards businesses that are scalable, and we can grow profitably and where we can generate a double-digit return on allocated capital on a sustainable basis.

Let's now please turn to some more examples of our underwriting focus and specifically some actions we've taken to reduce volatility. The first one is that we've been actively adjusting our book of business to significantly reduce that volatility. There are certain types of risks that we don't want to underwrite and we're pulling back from in a deliberate manner. For example, on Property, we have been reducing our line sizes and lowering geographic caps and exiting wildfire-prone areas. By taking this decisive action, Argo has already significantly reduced our exposure, and we are targeting a reduction of another 40% in modeled risk as well as continued decline in PMLs overall. We expect that we can reduce the modeled risk and volatility of the portfolio without having a significant impact on the company's top line.

So let's look at what this means in action. Next slide, please. There are several specific actions we identified to help reduce our exposure to the property volatility. First was the sale of Ariel, and that was the most impactful as it reduces the net average annual loss by 25%. And there is a continuing decrease of average limits deployed while focusing risk appetite on U.S. property risks, a reduced appetite for binding or delegated authority business in both the U.S. and London, including limits on our geographic footprint.

The modest growth that we expect in the attractive Bermuda property portfolio to balance that and have some increase is important because Bermuda was the best-performing property business in 2020. And the Bob Hansberry-led business had a combined ratio below 70, including cats, during a really challenging year. So in total, we expect these actions will result in a net reduction of around 40% over the next 2 years.

Let's now turn to Slide 18 for another example, but focusing on our Liability lines. In Liability, we focus on limits, terms and conditions, while also getting strong rate that everyone's heard about in the marketplace. It's important to understand this was done by choice through judicious underwriting, limit reduction, reducing concentrations of risk with the effect of volatility reduction. We're focused on doing this on a gross basis versus net basis through managing limits, paying close attention to attachment points as well as implementing terms and conditions that are tighter than had been in the marketplace for a while.

We achieved significant limit reductions in certain key products. Specifically, the average commercial D&O limits have declined 13% over the past 3 years cumulatively. The average U.S. excess casualty limits have declined almost 23% from that same time period. And the average Bermuda excess casualty limits have declined 36% during that time period. Meanwhile, we achieved rates increases north of 20% in these 3 lines and well in excess of that in particular cases.

So let's take a moment to go to the next slide and spend a little bit of time on what remediation is and what it means. As I mentioned during the discussion on that optimization framework, there are times when a business or product line is challenged through our results, market or environment factors, including macro conditions. When these are identified through our review processes, as the combined ratio of the business drifts to the high 90s or is challenged to get to scale, we will embark on a process fixing it, and it is generally a 12- to 24-month period. Then if the actions work, it will be back in the grow and invest category. If not, we will pursue an exit, with a sale obviously preferable to a shutdown.

So let's turn to Slide 20, and I want to spend a little time on what remediation means in practice. Our contract binding business or a delegated authority business focused on small account property and casualty risks in the wholesale market is challenged, as is the U.S. specialty property book. We are in the process of getting the rates and terms we need or we don't write the accounts. Taking this approach reduces risk while maintaining premium levels through rate. The relationships with the unprofitable distribution partners are worked on or terminated, with the effect of the remaining book of business being of higher quality. As we progress through the year, we will share details by quarter on how those businesses have fared.

So if we please turn to the next slide for some additional examples of how this process has played out over time. We'll look at one that was successful and one that wasn't. In our commercial programs area, we had a small and not meaningful business of about $25 million in 2014, but one with the opportunity if used appropriately to grow in some specialty areas with an efficient and variable cost structure. Brought in a new leader, Andy Borst, who is now our Chief Administrative Officer. And he joined the organization, added to our staff, instituted some changes to appetite and guidelines, created an efficient and service-oriented business, which has allowed us to win some excellent program opportunities. In 2020, this business was over $150 million in gross written premium, had a combined ratio under 80%.

On the other hand, we had Argo insurance, our grocery and retail insurance business, which had been performing poorly and went through several remediations over the course of that time, where we eventually found a place in the market focusing on risk-managed accounts and the use of excellent risk management technology. Despite a leadership change and some good additions to staff, we could not get the business to scale as it was stuck in the $30 million to $40 million GWP range. So we exited it in the fourth quarter of 2020. They're just a couple of examples of how we approach that process.

Now if we turn to Page Slide 22. This is a list that some of you have seen, and we just want to have it for everyone to have access to, that we have exited a number of business lines over the past 18 months. We have taken decisive action with regard to underperforming businesses. And some of these exits will, over time, result in the elimination of legal entities and certain regulatory and reporting requirements. Although it takes a little longer to completely exit a business unit when it requires shutting down legal entity, we expect there to be some benefits from these actions that Scott will address later in the presentation.

I'd like to focus now on some selected business lines. And we wanted to take this opportunity to dig a little deeper into some of the individual businesses and provide a little insight later on. But as a group, these businesses we're highlighting collectively represent over $1 billion of premium and have grown at a combined -- at a roughly 20% CAGR with a combined ratio solidly in the mid-80s for the past 3 years. They each have distinct competitive advantages and we'll highlight each business. They are predominantly Liability businesses with coverages that have an average claims tail in the 3- to 5-year range. 3 years ago, these businesses represented 45% of the U.S. business. We expect them to be 60% by the end of 2021. The specialty lines have favorable rates and terms, coupled with Argo's leadership in the market and can be scaled to size and contribute meaningfully to the company's earnings growth. They represent some of the most profitable businesses we have, so we'll spend a few minutes on each one in the next section.

The first business we'll highlight is Argo Pro. It is about 10 years old and has been organically grown for the most part in the U.S., with parts of the business having been part of our E&S group prior to its launch and a couple of acquisitions of Professional Liability books along the way. We write a variety of management professional coverages for about 60% of the book and Professional Liability products for another 30%, with the additional 10% coming through program business. The business is now more than $400 million in gross written premium, and all lines are written on a claims made-basis. Several years ago, Craig Landi, an experienced industry veteran with a strong record of performance and innovation, joined the organization to lead its growth and he has attracted some excellent underwriting and claim staff to the organization.

Argo Pro has a broad-based distribution network of both wholesale and retail producers. We focus on small to medium-sized accounts, and we have developed digital solutions that increase service and efficiency but, more importantly, assist in risk selection through expert underwriting tools that help our underwriters select the appropriate classes and program placements on the public company D&O business.

This particular tool is being rolled out as well for private companies and will lead to more consistent underwriting across the portfolio and the ability to monitor the impact of new accounts on the portfolio. The concepts developed around these digital tools are also applicable to other areas of the organization and are under development. Market conditions in these lines are very favorable currently, and certain segments of this business have gotten more than 80 points of rate over the last 2 years on a combined basis. We expect Argo Pro will continue to grow solidly in the double digits.

Let's turn now to Casualty on Slide 26. We have participated in the Casualty E&S business since we acquired Colony about 20 years ago. We used Casualty as an incubator for new businesses within this space. And as an example, we moved Construction, which I'll talk about in a moment, to be a stand-alone business a couple of years ago.

In our Casualty unit, we write primary and excess coverage, with a split of about 50% each. This business is approaching $100 million, which may surprise many of you, but we broke out almost $300 million of it when we set the Construction unit up. And as I mentioned earlier, we dial up and we dial down our involvement in certain parts of the market based on market conditions. This was applied to the Casualty line in the latter part of the past decade as the broader E&S casualty market became much more competitive than what we're willing to support.

So as the market has changed and we are operating the business under a new leader, Chris Haarman, who has longer ties to our Chief Underwriting Officer, Tim Carter, we have a consistent approach to the Casualty business throughout Argo Group broadly. Today, we find the market in a much better place and the leadership team is taking advantage of the strong rate environment. We have primarily wholesale distribution of -- primarily a wholesale distribution approach to the market and a small to medium customer base, like most of our businesses.

The Casualty group was the trailblazer for the U.S. business with respect to workflow, system change and digital solutions. So the efficiency and ability to turn around quotes very quickly is a competitive advantage, with the ability to quote in 1 hour versus what had been 1 day and more than that when the initiative started 10 years ago, which is a nice transition point to talk about our next business on Slide 27.

As I mentioned, our Construction group was part of Casualty and has been growing over the past decade into what has been a growth, profit and digital leader for the organization. Construction operates through wholesale distribution and is focused on small to medium contractors. We have very strong expertise in certain areas, including New York risks, and we broadly focus on interior renovation and service repair customers. The book is predominantly primary, with all the excess that we write done on a supported basis, meaning we write the underlying account as well.

The leader of this business, Jim Cornwell, has successfully led both our Casualty and Construction businesses and embraced workflow, system and digital enhancements over the past 10 years.

So from a digital perspective, we have pioneered and refined several of our best digital tools and processes in this business. One digital tool of interest is our Owner’s Edge platform for owners' interest policies, which is completely accessible and provides quick response times with a much greater efficiency than all of our other products. The premium per employee in this area is $8 million plus. There is another very significant digital process application which was developed by the Construction team, which I will speak about later when we highlight digital tools.

Moving now to Slide 28 and the Environmental business. It has been a strong performer for us over the past 10 years and is continuing to grow while remaining an efficient business. We did have some turnover in the business last year which impacted our growth. But the business is overseen by Marsh Duncan, who did a great job of building the business in the first place. We had moved him on to other roles within Argo, and he is now again sitting in an oversight role.

He was able to attract a new leader, David Corry, with strong industry experience and a following in the marketplace who has subsequently hired a staff of skilled underwriters. And we are located with a broader geographic footprint, which will further enhance growth opportunities. The appetite is for small to medium risks written primarily through wholesale distribution. It is mostly claims made and liability policies. Rates have not been as strong in this area as some other business units over the last 2 years, but Environmental is in a strong position of profitability.

Now let's turn to Slide 29 and talk about our inland marine business. We have written inland marine coverages on and off for the past 9 to 10 years, but had not come anywhere near scale or done well with it financially. So we hired a new leader several years ago, David Higley, who has had extensive history in the business and has overseen a sizable and very profitable book of this business in his past. We are using the business as a model for a fully digital approach to new business units. And it has been growing at a triple-digit rate, which will continue for the near term as we expand the staff, the geographic footprint and the use of digital tools and processes. This is a very large marketplace where we can offer specialized program and provide service as a differentiator, which will allow us to capture profitable business while we access wholesale, retail and MGA channels.

Now let's turn to Surety, which is a very successful and profitable business for us that was started by a group, including our leader, Josh Betz, and his Chief Underwriting Officer, Mark Farina, over 10 years ago. We are able to compete on larger programs and excellent business through the strength of our underwriting and claims approaches, including the use of engineers in the risk management and underwriting process. We focus on the commercial and contract surety business, with the former being the largest part of the book.

Additionally, we serve the needs of some of our clients through the international operations. The business has grown organically and is now a $150 million business with excellent results. Over the past year, increased competition and the economic slowdown have had an impact on both losses and opportunities in the industry broadly. So we are not looking for growth at the same rate we had historically, but the profit potential remains strong. And the team is very disciplined in their approach to underwriting and managing claims.

So let's briefly turn to Slide 31. And while all these things are great and they're happening, and the businesses are positioned for profitable growth, we feel confident in our ability to continue our long-term growth trajectory.

Another key to our success has been the willingness to walk away from unprofitable business. Since I joined Argo in 2013, we have exited 27 businesses or product lines that have totaled approximately $700 million in premium over that time frame. You will notice from the chart on the page, though, that the magnitude has gotten smaller in recent years as we have already dealt with the most of the problematic businesses. However, our disciplined review of business prospects is an ongoing process. And I earlier spoke about initiatives underway in contract binding and property.

As markets and opportunities change over time, we constantly reevaluate whether we should be deploying our capital and resources into a business. If the growth and return potential is not there, we would rather provide the resources to a business with better prospects. As you can see, this approach has not hurt our ability for growth, and the U.S. top line has nearly doubled since 2013.

Now I'd like to spend a few minutes on our international platform. Let's start with market potential. I want to take this opportunity to clear up a misperception about international markets. Our international business is focused on U.S.-based non-admitted risks. According to our producers, the Bermuda insurance market is approximately 90% U.S.-domiciled risks. And more than half of all risks written through Lloyd's are from U.S. and Canada.

Syndicate 1200 and Bermuda insurance provide platforms to write U.S.-focused specialty business in hardening markets, with favorable outlooks for rates and terms. This is exactly the type of market we want exposure to and the ability to participate in. Argo has some competitive advantages in terms of our underwriting skills and the lines we write: our existing presence and infrastructure and the fact we are an established player in both markets. These businesses are scalable with rates and terms that meet our risk and return requirements. It is important to emphasize that Lloyd's is the largest writer of U.S. E&S business with a 22.5% market share.

Now let's talk specifically about what's happening in each of these platforms as we turn to Slide 34. With the backdrop of strong market conditions as well as the actions taken to exit certain businesses, we feel very good about the prospects of our Bermuda insurance and Syndicate 1200 platforms. Significant re-underwriting actions have already taken place in these 2 units, and we're now focusing on optimizing the portfolio.

In Bermuda, we plan to continue the progress we made on underwriting quality of this long-standing portfolio of business. Our 3 business lines are Casualty, Professional and Property.

In Casualty, we focus on select account targeting while reducing, limits overall and continuing to refine our appetite. The rate environment remains very favorable and should support growth even with lower limit profile. In Professional, we continue to pursue selected segments, growth opportunities, maximize rate increases and decrease both gross and net lines across the portfolio. In Property, we are focusing on managing the line sizes and reducing our cat exposure. The pricing environment remains strong and we will take advantage of the opportunities we are presented.

Moving to the Syndicate. We exited several lines and branch offices that wrote through the Syndicate. This gives us more confidence in the book, and growth above rate increases will be prioritized where we have: one, demonstrated proven performance; two, the market environment is favorable; and three, we have opportunity to lead an account.

In Marine and Energy, we're focused on growth in cargo through digital distribution as well as other open market opportunities that have lower volatility. In professional and casualty, we continue to grow with rate increases in the market, while rebalancing the mix of our business from delegated authority to more open market placements. In Property, we continue to reduce exposures across the portfolio, as I highlighted, and we are doing so across the group. In Specialty, we are continuing our growth in trade credit and political risks. Our team has a proven track record of performance in an expanding market.

So in summary, our portfolio of businesses in Bermuda and at Lloyd's is better positioned today, and we expect stronger contributions to the bottom line going forward, which we will demonstrate on the next slide, 35. There are a couple of key reasons why we're more confident in the international business today.

First, the rate trend has been very strong over the last 2 years, and we have seen a strong improvement in the underlying loss ratio. Pricing as well as reunderwriting actions are the primary drivers of the better ratios. Secondly, many of the strategic actions we announced at the end of last year impacted the international segment.

We announced the exit of 3 business units: Ariel Re, Italy and Malta. If we adjust our historical results to exclude these businesses, you can see that our underlying loss ratios would have been better. The difference in 2018 is caused by unusually low non-cat losses at Ariel that year. The underlying accident year loss ratio in the international business was in a good place in the last half of 2020, and the renewable base is even better positioned.

Lastly, I think it's important to again mention the reinsurance to close transaction we executed to cover Syndicate 1200's reserves from the 2017 and prior years of account. This again gives us more confidence in the risks that we're exposed to going forward as rates and terms are expected to remain favorable in 2021.

In my next section, I'm going to spend some time on our digital initiatives. Our digital journey and technology investments have been a key factor in the success of the U.S. business. Our investments are targeted, but we are willing to spend if we're confident in the payback. Over the last 5 years, we've been spending about $10 million per year on digital investments.

The focus of our efforts in this area are to allow us to: first, interact better with our insurers and producers by eliminating redundant or unnecessary information gathering; second, manage our resources more efficiently; and maybe most importantly, thirdly, allow our underwriters to spend the majority of their time focused on underwriting rather than administrative tasks. We have been able to use our digital enhancements to streamline the intake and quoting processes with the effect of reducing quote times from what had been days in some instances to hours. As these tools have been developed, we have rolled them out across the business units and have a target to get them in all areas. The workflow improvement allows us to achieve this. And over the next few pages, I'll get into specific examples in more detail.

On Slide 38, one way we are able to measure the success of some of our digital investments is by looking at premium per employee. As our investments have increased automation and developed better workflow systems, we have been able to become much more efficient.

When I joined the organization in 2013, the U.S. business was running at about $1.6 million per employee, which is not a good ratio for a flexible and successful specialty operation. Since then, we have nearly doubled the amount of premium per employee and written profitable business along the way. The investments may have allowed us to only need to grow staff at a 2% annual rate while growing premium at around 10% annually. More importantly, back to the point I made earlier in the presentation about dialing businesses up and down, these improvements will not put an expense strain on the organization if we need to dial some businesses down.

On the next 2 slides, I will provide examples of certain digital investments in action. One of the best contributors to service, efficiency and profitability is a series of tools combined into something we call the wrapper. The wrapper system was started 7 years ago when -- by Jim Cornwell after we had a discussion about incomplete submission information slowing the quoting process. It has evolved to something where the wrapper pulls data and consolidates underwriting information, allowing faster quoting. We have used it to implement and refine filters on the submissions, so it leads to strong margins through eliminating unwanted business and tasks.

When combined with workflow enhancements, we get even more benefits. The wrapper supports about $100 million book of business that has produced U.S. business leading margins consistently for the past 3 years. This digital enhancement allowed us to get great returns from our digital investments and is indicative of the opportunities we have as we continue to roll out tools for the organization.

On the next page, I will focus on how we're integrating artificial intelligence to improve our efficiency. Our investments in AI have helped our operations in a few areas. First, we have developed tools that help prioritize submissions for our underwriters. What happens often in the specialty market is a broker will blast the submission to many carriers. And this can create a backlog of submissions that is mixed in terms of quality or not aligned with our risk appetite. We only want our underwriters focusing on the highest-quality opportunities.

We started a process several years ago where we started down this path, but the AI technologies help us prioritize submissions as they come in the door so that our underwriter review -- our underwriters review opportunities that we're most likely to write first. The focus for us is quality over quantity. We also have capabilities that allow us to monitor workflow of our staff. We are able to reallocate tasks to areas where there is capacity, so fewer resources are ever sitting idle.

Lastly, our AI capabilities can auto populate submissions into our system. This allows us to respond more quickly, improves our service to producers and allows us to adjust staffing in certain areas as well as being more certain about clarity of the information offer.

Turnaround time is a key factor in winning businesses in certain lines, and these investments have helped us significantly improve how quickly we are able to respond to quotes.

I'd now like to turn over to Scott Kirk.

Scott Kirk
Chief Financial Officer

Yes. Thanks, Kevin, and good morning and good afternoon, everybody. My name is Scott Kirk. And as Kevin and Brett said at the top of the call, I'll be taking over the CFO role from Jay Bullock after we file our 10-K.

Although I'm new to Argo, I am not new to the CFO role. I have 20-plus years of experience in the insurance industry, and most recently as CFO in a similar-sized insurance group. I'm quickly getting my feet under the table and thinking about the way forward here at Argo. And as you heard from Kevin, there's been a lot of change over the last few years, and these are exciting times to be part of the Argo story. It has been good to meet a number of you over the last couple of weeks through the investor conferences. And for those of you that I haven't met, I really look forward to seeing you at some point soon.

We listened to the feedback from these recent meetings. In this next section, I am laying out several key data points to help you think about the financial trajectory for Argo over the near term.

Now breaking these down in the following areas, I'm going to talk about growth expectations, changes in ceded reinsurance, expenses, investments, capital management. And then I'll try to draw all of these components together to provide you with a view of our key financial metrics and intend to give you a visual of the key building blocks, perhaps beyond 2021.

So first, let me talk about the growth expectations, which are on Slide 43. Now here on this slide, you'll see that the company has been very busy executing on its simplification strategy, exiting a number of noncore businesses. Now the graphic on the right side of the page peels away the impact of these exited businesses to show the strong underlying growth story in the go-forward business.

We anticipate high single-digit growth in premiums for 2021, reflecting those key underwriting initiatives that Kevin provided in his earlier remarks. It is worth pointing out that the business we exited in 2020 continues to run off in 2021 and beyond. However, by 2022, the impact on gross written premiums is going to be very, very small.

Now I'll turn to the changes in our ceded reinsurance requirements in 2021, and this is on Slide 44. This is an important change as we are expecting to reduce the level of ceded reinsurance that we purchased in 2021 and beyond. We've been able to achieve this through a combination of exiting poorly performing lines, exiting the reinsurance business and reducing our use of third-party capital layer, reducing our property exposures and reducing our gross limits across a number of insurance lines. The reduced need for ceded reinsurance increases our earnings without any meaningful change in the trajectory of the group's risk profile. Now this is a key driver of net earned premiums as we move forward through 2021 and beyond, which you will see as we turn to the next slide on Slide 45.

This slide provides an outline of the impact of the exited businesses on net earned premium in each of our segments. And under normal circumstances, you might expect to see the net earned premium go down as we exit businesses. In our case, we've exited the more volatile reinsurance business, which has, in turn, led to a reduction in our need to purchase ceded reinsurance. And this allows our net earned premium to grow in 2021. This is particularly evident in the international segment, where the reinsurance business was reported historically. The increase in net earned premium, combined with what we hope will be a more normal cat year, is a key contributor to the anticipated improvement in the combined ratio in 2021.

Now let me move on to expenses on Slide 46. Now before I go into the numbers, I sort of want to highlight where we are in the process of improving the efficiency of our operations. And broadly speaking, we're at the start of that journey. And although progress was made on our expense target in 2020, we are really dealing with a low-hanging fruit here. And this is what I'm going to call Phase 1, and it will take us through to the end of 2022.

Now turning to the numbers on the slide, I wanted to clarify and reset what we are doing with regards to the $100 million expense initiative we announced last year. Yes, specifically, I wanted to focus our attention on the above-the-line expenses. And what I mean by that is that we said we will reduce expenses by $100 million through 2022 based on expenses we reported at the end of 2019. Now of these, circa $40 million were below the line other corporate expenses, which are not included in the combined ratio. Now what I want to do is refocus our attention towards those expenses, which impact the combined ratio, where the goal here is to save $60 million of expenses through 2022. And by no means am I attempting to back away from the targets we established, but I want to focus on the core operating expenses of the business.

You can see the detail behind the remaining $40 million of expense savings on the top right-hand side of the slide. These savings will be driven by a combination of business rationalization, where we'll see a full year impact of the cost reductions of those businesses we exited, in addition to some reorganization costs and further general expense reductions. We will continue to drive efficiencies in this operation.

I believe the more important metric to consider over is on the next slide, Slide 47, where I'm highlighting the impact on the expense ratio of these reductions and other contributing components. Now this slide brings together many pieces of the discussion to show a trajectory of the expense ratio through 2022. Now in terms of these pieces, it incorporates our growth expectations, changes in business mix, reduced level of ceded reinsurance as well as reductions in our operating expenses. As you will see, and consistent with the recent discussions on our earnings call, we anticipate the expense ratio will be in the range of 37.5% to 38% in 2021.

Now the new piece of news here is that we said we'd reach the 36% expense ratio target by the end of 2022. However, I believe we can get there a little faster and aim for a 36% expense ratio for the full year 2022. Going forward, we'll also look to improve the transparency of these components within our quarterly materials.

The expense story does not end here, and I definitely believe there are further inefficiencies to be driven out of the business. I'm going to call this Phase 2 of the expense initiative, and I'm going to lay out some of the key principles on Slide 48.

The expense story does not end here, and I definitely believe there are further inefficiencies to be driven out of the business. I'm going to call this Phase 2 of the expense initiative, and I'm going to lay out some of the key principles on Slide 48.

Phase 2 requires a more strategic view of operations and will combine a deep dive into the group's support functions and will look to transform our operations into a more fit-for-purpose and scalable infrastructure. This will take time to evaluate, and it will take care to execute. The outcome of Phase 2 will be where I'll be focusing my energy through 2021 and something that I've had success in my past.

Now shifting gears, now I want to highlight the changes in the investment portfolio that have been made over the last 2 years on Slide 49, and then I'll look at the impact these shifts have on our expectations for net investment income on Slide 50.

So on Slide 49, we're constantly reviewing our capital position, ensuring that we're deploying our capital to areas where we believe we can achieve the best rates of return. And with regards to the investment portfolio, over the last couple of years, we have been derisking as we have seen opportunities to deploy our capital towards underwriting opportunities. With this derisking in mind, going forward, we will continue to evaluate our allocation to alternative investments given the relatively high capital charges that these investments track. And in all likelihood, we'll see this portion of the portfolio reduced and be redeployed elsewhere in the portfolio.

I look forward to updating you on these changes we are making over the coming quarters. However, our philosophy with regard to the assumption of risk here is that we assume risk from our underwriting business and we do not take excess risk in our investment portfolio.

Now let me turn to our expectations for net investment income in 2021 on Slide 50. The duration of the fixed income portfolio has decreased from about 3 years in 2019 to about 2.5 years at the end of 2020, while book yield ex cash is just under 2.25%, and new money rates are in the range of 1% to 1.5%. With regards to our short-term view, and as Jay mentioned on the recent earnings call, we have seen a compression in new issued credit spreads. And this, combined with the continuing low interest rate environment, we anticipate that income contributed from our core investment portfolio will be a little lower than we saw in 2020. It is worth noting that the net investment income from the core investment portfolio, excluding our alternatives, was $23.5 million in Q4 2020.

Turning now to our alternative investments. The recent reflation has improved the outlook, but predictions as to the quarterly impact of these on our investment returns is really difficult. However, we would anticipate that the contribution from these assets is marginally higher than the $9 million we reported in 2020.

Turning now to capital on Slide 51. I just wanted to highlight our philosophy with regards to capital management. And first and foremost, we are committed to ensuring strong levels of capital are maintained to support our regulatory and rating agency obligations. In terms of any capital management decisions, we will first ensure that strong capital position are maintained with our regulators and rating agencies, and we would then look to deploy that capital in the business if there are opportunities to do so. If we had excess capital at that point, we would look to return that to shareholders. It's worth noting that with regards to the key metrics that we're providing over the page, these do not contemplate any material capital management actions during 2021. This, of course, may change if opportunities arise.

Bringing all these pieces together, I now wanted to turn to Slide 52, where we're providing expectations of our key financial metrics for 2021. We acknowledge that there's been a meaningful amount of change over the last 12 to 18 months ago. There are still a number of factors at play that can have a meaningful impact on our financial results, such as the size and frequency of natural catastrophes, the impact from global financial markets and significant legal reforms. But on this slide, we try to give our best view of the year ahead.

First, on top line, you can see the premium expectations for 2021. On an underlying basis, we expect mid- to high single-digit growth for the go-forward business. We also expect to see a higher ratio of net written premium to gross written premium in our reported results, and I discussed this earlier. All in, we expect a combined ratio of 95% to 97%, assuming a normalized view of catastrophe losses during 2021. I will note though that these targets do not make any additional allowance for the impact from the winter storms in Texas that occurred in February.

If I move over on to Slide 53, what I've done here is attempt to give you a visual of the key building blocks for the glide path for ROE, largely focusing on 2021, but obviously, I've given you some pieces to that puzzle beyond that. And here on Slide 53, I'm going to show the key steps to achieving our ROE targets in 2021 and give a really high-level view of the building blocks for '22.

Looking at '21 as a key driver. So our expect -- the key parts to this is the reduced COVID and CAT losses from those that reoccurred in 2020. And you can see that towards the left-hand side of this. And beyond this, I've already covered our expectations for expenses, underwriting initiatives and investment income. I think the bridge, as you think about it beyond 2021, is directional only at this stage and highlights the key drivers for ROE improvement.

And with this, I'll now turn the call back to Kevin for some closing remarks.

Kevin James Rehnberg
President, CEO & Director

Thanks, Scott.

In closing, I would like to say that we are committed to executing our strategy and meeting our financial targets. We believe that we are well positioned in the current environment with more than 90% of our premiums focused on U.S.-domiciled risks. This is an area where we have demonstrated our expertise and ability to produce attractive margins. Further, we are benefiting from favorable market conditions that are allowing us to achieve rate and better terms and conditions as well. We will pursue growth in a dynamic and disciplined manner with a focus on bottom line results.

As Scott discussed in detail, we have an expense initiative to remove costs, and we expect to achieve 36% expense ratio in 2022. Today, we have also laid out additional operating and return targets for '21 and '22. This includes reaching a double-digit ROE by the end of 2022. We have identified steps and actions to achieve those targets and look forward to updating you on our progress along the way.

We will continue to invest in technology applications that support both our efficiency and growth objectives. All of this is supported by a balanced investment portfolio and a strong balance sheet.
Thanks for your attention today. I will now turn it back to Brett to begin the question-and-answer portion of this session.

Question and Answer

Brett Shirreffs
Head of Investor Relations

Thanks, Kevin.

Right now, we're beginning in the Q&A portion of the call.

[Operator Instructions] First up is Casey Alexander.

Kevin James Rehnberg
President, CEO & Director

I can't hear him. Perhaps he's on mute.

Scott Kirk
Chief Financial Officer

I can't hear him either. Just let Casey know.

Brett Shirreffs
Head of Investor Relations

Okay. Maybe we'll move on to the next question and come back to Casey.

All right. Next up we've got Ron Bobman.

Ron Bobman

Can you hear me?

Kevin James Rehnberg
President, CEO & Director

Yes. Loud and clear.

Ron Bobman

Okay. Great. I can hear you and see you. Real nice presentation. I like the segment disclosures.

Could you -- really best for Kevin, I think. It's not apparent to me that excess casualty written from Bermuda fits the specialty characterization. Can you explain sort of the justification for remaining in that business?

Kevin James Rehnberg
President, CEO & Director

Yes. I think that could be looked at that way across the group when I talk about how we have small- to medium-risk profiles as there are mostly in that market, larger accounts. That doesn't mean they're exclusively larger accounts. We have participated there over a number of years. And at the moment, the average line size is probably 1/4 of what it was when we initially started there.

So we have, with the market as well, taken the exposures down and are at a position where we are capable of participating, given the size of the organization. And with the narrowed focus, we may not have as much growth out of there, but we still think we can participate in that market.

Ron Bobman

It doesn't seem to me intrinsically that it has the characterization of Argo maintaining a competitive advantage, ensures appreciating the underwriting talent of Argo. Again, as an excess player, it seems much more candidly like a commodity opportunity. Albeit one where maybe the wind is at the line's back, but longer term, it seems like it's got commodity orientations. That's why really -- the root of what I ask.

Kevin James Rehnberg
President, CEO & Director

Yes. I guess, I appreciate that perspective. Having spent a couple of years in that marketplace, there are a number of different types of risks that do show up there. And the fact that we're writing casualty does, in that market, help us on the professional liability and property side. So there are some ancillary benefits. But it is something that we -- as I mentioned earlier, we look at the businesses on a quarterly basis, and we'll continue to review that one.

Brett Shirreffs
Head of Investor Relations

Okay. Let's try to go back to Casey Alexander again.

Casey, we're still having trouble hearing you so we're going to move on here.

Next up is Greg Peters.

Charles Gregory Peters
CIMB Research

Can you hear me?

Kevin James Rehnberg
President, CEO & Director

Yes. Loud and clear.

Charles Gregory Peters
CIMB Research

So I wanted to talk to you for a second, structurally or have you address, you're trying to lower your expense ratio. Can you talk to me structurally about in the international business, the amount of business that is done on a cover holder basis because it's my impression that, that's run at a higher expense ratio than other types of business.

And then, of course, you also mentioned and highlighted your surety business. And my impression of the surety business is that that is also a higher expense ratio type of business relative to the others. So ultimately, what I'm getting at is to address these businesses that I think have higher just embedded expense ratios as you're trying to push the expense ratio lower for the consolidated organization?

Kevin James Rehnberg
President, CEO & Director

Yes. Greg, those are good points. Thank you for bringing them up because -- I'll start with the first one. In the London operation, we started a couple of years ago with the action to take to cover holder businesses down that were challenged from an underwriting standpoint, but we've also addressed it on an expense standpoint. So that's a work in progress and has been -- being moved through over the last several years.

The challenge with cover holder business is you can't get off it immediately. There are generally terms and conditions about the time line to remove yourself from that. So we expect over time that, that will continue to diminish.

With respect to the surety business, it is an inherently high cost structure in that line of business across the industry. The balance of it is though that the industry loss ratios for the previous several years had been in the low teens. On an industry basis, last year, they crept up to the low 20s. We have performed generally better than the industry. So when you combine the 2, it's something that we'll take that pill and handle the expense portion in the U.S. book as long as we get the surety results.

Charles Gregory Peters
CIMB Research

So just to follow-up, I think you wrote for 2020, about $1.8 billion of total net premium written. How much of that would be structurally higher expense ratio business, cover holder business, surety business, stuff that you -- it's going to be very difficult to have sort of expense ratio improvement in the near term?

Kevin James Rehnberg
President, CEO & Director

On a percentage basis, I don't know that off the top of my head. I really don't.

Charles Gregory Peters
CIMB Research

Is it -- It's okay. I'm sorry about that.

Kevin James Rehnberg
President, CEO & Director

No, no, no, but Greg, it's a good question. So we'll make sure we get an answer on that. I'm just not -- it doesn't need to be a secret.

Charles Gregory Peters
CIMB Research

Well, if it's not material, it's not material. You would know that, I guess, if it were material. So the fact that you don't have the answer right at your -- tip of your tongue would suggest it's an immaterial number, or not as material.

Kevin James Rehnberg
President, CEO & Director

Well, I guess part of it is we're not doing everything just about expenses, right? There's a number of levers that are being pulled. So as an example, surety isn't -- we just accept that's going to increase our expense ratio. That's just because of the overall performance of it and the great returns, it's just something that we'd have to bear, as an example.

Charles Gregory Peters
CIMB Research

Yes. I guess the second question is going to fall under the comments both of you guys made about normal CAT year, and you set your return -- operating return on common equity target for '21. And assuming normalized CAT years -- and if I'm not mistaken, during the course of the comments, Scott also sort of as if-ed or excluded Texas. So I guess what I'm trying to understand is what's the normal CAT year? What should we assume is like your CAT load as part of your guidance, just so we have a benchmark to know whether you're in a normal experience or not?

Kevin James Rehnberg
President, CEO & Director

Yes. Again, another question we get fairly regularly. We have, in the past, spoken that it's in the 3 to 4 range, and it will remain there. But what is really important to note is that overall for the organization, the PMLs have continued to decrease and the net exposures have decreased as a result of that through the exits we've made.

So if you think about it, the reduction in exposures with the maintenance of the level for what we consider a normalized CAT at the same level as it was before, is actually an increase in our view on that.

Charles Gregory Peters
CIMB Research

So it's 3% to 4% over the course of the year, and obviously, it's early days as far as Texas, but clearly, it's had an impact on your operations. I guess, instead of telling us what the number is or what you think the number is, can you talk to us about your reinsurance structure for 2020, and what we should think about just as a per-event retention? Is it $20 million? Is it $50 million?

When we see a hurricane come across or we see an event like what happened in Texas, how should we, as investors, be thinking about, okay, it's going to be -- their reinsurance structure set up, so the retention is x, and we could sort of work off that.

Kevin James Rehnberg
President, CEO & Director

Yes. So our exposures as a group were significantly higher last year. And as the 2020 year of account for Ariel runs out through the course of this year and as the underwriting actions we took in some other lines have taken effect, we've also had the opportunity to reset some of the reinsurance that is put together for this business.

In the past, we had the need to buy a lot of cover because of what could potentially happen to the top of the program based on the CAT exposure with Ariel Re. So when you have a very large program like that, your retentions are higher. And those have been lowered over time through the course of the last renewal season, and as we're going through this year for 2 reasons, one is the exposure is not as high; and two, the type of insurance programs that we have are different.

So I'm not giving you the dollar amount you were looking for because it is in transition, but it is moving down on a significant basis. And the slides we pointed out -- I can't remember the number on the slide, but we talked about the volatility reduction helps point to that. Is there anything you want to add to that, Scott?

Scott Kirk
Chief Financial Officer

Okay. I don't think so, Kevin. I think you've answered it as clearly as we can at this point.

Charles Gregory Peters
CIMB Research

So just as one follow-up on this, and this is my last point. So there -- I should infer from your comments that there's going to be some lingering exposure from Ariel this year to Texas or some other events as you comes off your books. And your reinsurance changes that you've made include the risks of going over through the top of that. Or you said -- you used to have to buy a lot of reinsurance to protect going through the top.

So I guess what I'm trying to get at is, I assume you covered all those bases with your reinsurance change, but it just bears -- based on your answer, just the follow-up was important, to ask.

Kevin James Rehnberg
President, CEO & Director

Yes. Yes, I'm happy to address that. So again, we've reduced the exposures, but just to clarify, and you pointed it out, the 2020 year of account does play out through the course of this year for risks that were written, either 4 1 or, in some instance, 7 1 -- through 7 1. So those accounts would be exposed through that portion of the year.

There are always winter storms. So it's not like we haven't seen them ever like that in that part of Texas, but there have been winter storms, and those are contemplated in insurance programs. But our need for overall insurance and how we put the reinsurance programs together did change as we reduced the PMLs across the organization as well as moved away from Ariel's book. So across the board it's a lower exposure, and we do have lower retentions on the new programs going forward.

Brett Shirreffs
Head of Investor Relations

[Operator Instructions] While we're waiting on that, I did get a chat question from Casey Alexander, who's having some audio difficulties. He asked, Kevin discuss the leading markets where the macro environment is unfavorable. Insurance underwriting is cyclical. How do you prevent leaving markets too early simply because you're in an underwriting cycle?

Kevin James Rehnberg
President, CEO & Director

Yes. That's -- again, these are all great questions. And occasionally, we do make a mistake, and that may happen. But more importantly, the specialty market is not as cyclical as the regular insurance market. Every single year, in my career that I've been in specialty business, which is over 25, there has been a hard market in something. And in the middle of this hardening market, we had certain specialty lines where there were decreases, partly because they were addressed 3 to 5 years ago in that particular -- in those particular lines of business.

So you really have to -- we have to think about what are the opportunities for us, and it's not just about -- that's why dialing up and down is important because we're looking at where should we deploy capital now in terms of what we see as the best opportunities in the near to midterm.

Brett Shirreffs
Head of Investor Relations

Our next question comes from Matt Carletti.

Matthew John Carletti
JMP Securities LLC, Research Division

Hope you guys can hear me okay?

Kevin James Rehnberg
President, CEO & Director

Yes.

Matthew John Carletti
JMP Securities LLC, Research Division

A little bit of a pointed question, but I'm just hoping you could talk for a minute about the Latin America business, Argo Seguros. And it looks from the disclosures, 8% of international, maybe that's sort of $100 million or so. Just kind of -- as you analyze what businesses to keep and what businesses to continue on with, kind of what your assessment of that business is and how we should think about that going forward?

Kevin James Rehnberg
President, CEO & Director

Matt, sorry. You cut out for me for a second, maybe me. Which business were you speaking about?

Matthew John Carletti
JMP Securities LLC, Research Division

The Latin American business, Argo Seguros.

Kevin James Rehnberg
President, CEO & Director

Oh, okay. So the -- you mean the Brazil business?

Matthew John Carletti
JMP Securities LLC, Research Division

Yes.

Kevin James Rehnberg
President, CEO & Director

Yes. Okay. So it's a small business for us, but it has been through a remediation process previously and is continuing to improve in terms of profit. It's important to note that, that business was the original place that the real digital business started. And there has been cooperative work that has been beneficial to both the U.S. and the Brazilian operation. That business, back over kind of 7 or 8 years ago, was creating a direct-to-consumer product that was used for professional liability and became the foundation and basis for some of the things that we use in the U.S. And so while it's not big, it's been improving and is just part of the portfolio.

Brett, I think there's a question in chat.

Brett Shirreffs
Head of Investor Relations

Yes. So the next question is a chat question, and this is probably for both Scott and Kevin. What was or will be the impacts of the transactions such as the Ariel Re deal and Italy transaction on your equity and capital?

Kevin James Rehnberg
President, CEO & Director

Yes. I think in his part of the presentation, Scott has addressed that in a couple of different areas. So why don't I just let you continue on with that theme, Scott?

Scott Kirk
Chief Financial Officer

Yes, that's right. I mean, in terms of the impact, firstly, on net earned premium, I gave that. You can see that there's about $50 million or thereabouts that we expect in 2021. I think, though, the question's coming down to what do we expect the impact to have on capital. And I think what you're talking about there is are we expecting to make any significant gains or losses perhaps on the sale of these businesses. And I think we already talked about what the Ariel transaction looked like.

With regards to the others, look, at this point, I don't expect there to be anything meaningful at this point. Obviously, if that changed, we'd update you, but nothing at this point.

Kevin James Rehnberg
President, CEO & Director

I would just add to that. If the question was actually about freeing up capital for the organization to put to use, would it be excess? And that may have been the tone. And if that was, in fact, what you were looking for, [indiscernible], I would suggest that we have opportunities that -- on the underwriting side, we'll probably put it to use on that U.S.-focused specialty business.

Brett Shirreffs
Head of Investor Relations

Our next question comes from Bob Farnam.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Thanks for the presentation. That was very helpful.

Kevin James Rehnberg
President, CEO & Director

Thanks, Bob.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

So the question I had is when you're able to increase or decrease premium-based on the profitability of a line, my question is based on what are the incentives for underwriters? Is there a component of their compensation that's based on production? Or is it just premium? Is it just a profitability that they're worried about?

Kevin James Rehnberg
President, CEO & Director

No, it has historically been really focused on profitability, and that's what we look at. And I always tell -- when I was running a group of businesses, I always told folks, your job is make money. My job is to find the new stuff that keeps us growing, right? And that's just a cultural thing that's in people's heads.

And at times, it's difficult for underwriters to sit idle. So that's why what we're trying to do is rather than rely just on significant amounts of people power to try to harness what we can from a technology standpoint so that people can stay busy even if the overall production targets for the business fall. And we've got opportunities for folks to move around in the organization as well.

So it's -- there is a lot of danger when putting growth targets out there for people. You could underwrite yourself to oblivion. But we are cognizant of that and really focus on underwriting profit with them.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Yes, and that was my concern. If they are worried about shrinking a book because it's not profitable, but the compensation is going to go down accordingly, it's probably disincentive for them to do it. So I just wanted to make sure I understood.

Kevin James Rehnberg
President, CEO & Director

Yes. No, it's a fair point. And it's -- unfortunately, it's something in earlier parts of my career, I had to manage through some difficult things, so I understand what that role is like and how folks want to be addressed going into it and deal with it.

Brett Shirreffs
Head of Investor Relations

I think we just got one more question on the chat line. This is a question for Kevin or Tom. It seems that the sum of the parts may be higher than the company's whole market value. Has the Board considered spin-off to shareholders of high-performing businesses? Related to this, can you discuss the status of the old Colony business that was...

Kevin James Rehnberg
President, CEO & Director

I can read it. Acquired years ago and whether it faces the same business opportunities as Kinsale, $4 billion market cap or James River.

So there's really 2 parts to that question. Do we think about opportunities to part ways with some businesses? And from time to time, yes, but generally not to capitalize on what might be the market opportunity for sale at that given time, if it's going to present us with continued opportunities for growth and delivering shareholder value well into the future. So that's the first part.

The second part is comparing Colony as an E&S business very specifically to either Kinsale or James River. Interestingly, they're all related well back in -- if you trace everybody's history. So there's a common nexus point in their past. But economy has been roughly the same size for a while, and it's somewhere between 7 -- at one point, it was over $1 billion. It's gotten down as low as 7 -- the low 700s. It's now, again, around $1 billion. And we move businesses that we write in and out of there, as I talked about as an incubator. So sometimes the products we're writing in there are better served by the admitted market.

So having something straight-up comparison for a business like that, which we use as a tool for accessing an important marketplace and dealing with customers is a different profile to something that was a de novo business and has had a growth trajectory that's just very different.

So they're very similar, but I don't think the kind of growth that you'd see specifically out of that, the way we're using it, might be exactly the same. But it certainly begs the question that the valuation, given it's an important part of what we have, is something to look at.

Brett Shirreffs
Head of Investor Relations

Kevin, I'm seeing one more question from the queue.

Kevin James Rehnberg
President, CEO & Director

We'll answer his question. So the question from Kevin price is, would you ever consider getting back into classes of business that you've exited, and if so, under what circumstances?

And the question (sic) [answer] on that is absolutely. If we have exited a business due to a sale, there are generally terms around those sales that prohibit us from -- they're normally a 3-year period, reentering in a competitive basis. So I say that because -- and Scott, you can nod your head if you've seen this through. But it's normally 3, or sometimes it's less and sometimes it's more, depending on what the business is. So that's the first barrier.

The second is that it depends on how big it was and how the exit went down. Was it considered well in the marketplace? Some companies when they exit -- I've worked in places where a generation later, trying to get back into a business, was very difficult, right? So I think it's a little different for what we do, both in the syndicate in Bermuda, and certainly, in the U.S. E&S market. It's a little bit more challenging in the admitted markets. So it really depends on what the business is. And we're always looking at opportunities.

And sometimes some of the things we exited in the past 8 years, as an example, are tied to other businesses that were for sale. So if something came back around, it doesn't mean that we wouldn't consider it. It could be well past any time frame we have around a noncompete.

Brett Shirreffs
Head of Investor Relations

Okay. I'm not seeing any more questions in the queue, so Kevin, I will turn it back to you for any closing remarks.

Kevin James Rehnberg
President, CEO & Director

Yes. Thanks, Brett, and thanks everybody for participating this morning. Thank you for your interest, your continued support. We look forward to interacting with you in the future and are open to you reaching out on anything.

So again, we really do appreciate your interest. Have a good day. Take care.

Scott Kirk
Chief Financial Officer
Thanks, everybody.