S&P Capital IQ

CONTENTS

Argo Group International Holdings, Ltd.

NasdaqGS:AGII

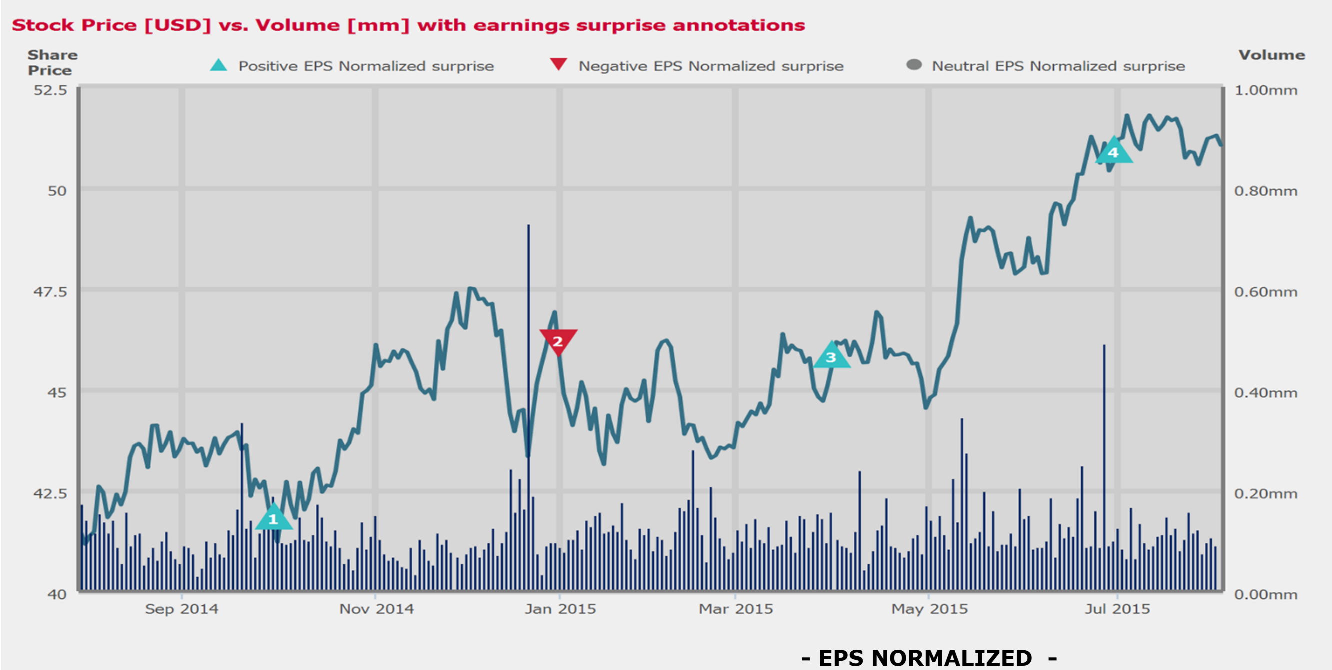
FQ3 2015 Earnings Call Transcripts

Tuesday, October 27, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.73	0.78	▲6.85	0.84	3.31	3.49
Revenue (mm)	351.10	372.00	▲5.95	353.80	1385.50	1440.80

Currency: USD
Consensus as of Oct-27-2015 1:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	0.71	0.74	▲4.23 %
FQ4 2014	0.79	0.69	▼(12.66 %)
FQ1 2015	0.76	0.93	▲22.37 %
FQ2 2015	0.68	0.83	▲22.06 %

Call Participants

EXECUTIVES

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Mark E. Watson
Chief Executive Officer and Director

Susan Spivak Bernstein
Senior Vice President of Investor Relations

ANALYSTS

Adam Klauber
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Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Christopher William Martin
Macquarie Research

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

Presentation

Operator

Good morning, and welcome to the Third -- Argo Group's Third Quarter 2015 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Susan Spivak Bernstein, Senior Vice President of Investor Relations. Please go ahead.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Thank you, and good morning. Welcome to Argo Group's conference call for the third quarter and 9 months 2015 results. Last night, we issued a press release on earnings, which is available on the Investors section of our website at www.argolimited.com.

Presenting on the call today is Mark Watson, Chief Executive Officer; and Jay Bullock, Chief Financial Officer. We're pleased to review the company's results for the quarter as well as provide you with management's perspective on the business.

As the operator mentioned, this call is being recorded. Following management's opening remarks, you'll receive instructions on how to queue.

As a result of this call, Argo Group management may make comments that reflect our 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 the 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 conference call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC.

With that, I'll turn the call over to Mark Watson, Chief Executive Officer of Argo Group. Mark?

Mark E. Watson
Chief Executive Officer and Director

Thank you, Susan. Good morning, everyone, and welcome to Argo Group's third quarter earnings call. I'd like to share my thoughts about the quarter, after which, Jay Bullock will add some commentary to the financial results. Also, joining us on this quarter's call is Axel Schmidt, our Chief Underwriting Officer, and we look forward to responding to any questions you may have during the Q&A portion of the call following our remarks.

After the market closed yesterday, Argo reported growth in operating earnings to $0.86 per share in the third quarter of 2015. And for the first 9 months of 2015, operating earnings per share were $2.80, up 13.3% from the prior year. These are encouraging results, and we remain focused on the ongoing day-to-day challenge of innovating and adding differentiated value to our customers, especially given the competitive landscape.

Our results reflect continuing work across all divisions to stay focused on growth and profitable business and identifying new opportunities for future profitable growth.

Some quick examples include strong results in the casualty area for our E&S segment and Argo Pro, our smaller entity professional liability business; and the positive turnaround of the results of Trident, our public entity insurer.

Overall, for the first 9 months of 2015, we posted a combined ratio of 95%, reflecting continued improvement in all of our operating segments. During the same 9-month period, we also generated a 24%

improvement in underwriting income to $50.4 million from $40.6 million in 2014. We are making ongoing progress in achieving efficiencies across the organization.

Our underlying expense ratio is showing favorable year-over-year comparisons in both the 3- and 9-month periods, particularly for non-acquisition expenses. Our loss reserves remained strong as we have benefited from favorable loss reserve development now for the last 18 consecutive quarters. And a point worth noting, each of the last 10 years has shown positive development as well.

From a growth standpoint, we continue to find opportunities in our niches to grow intelligently and profitably despite challenging market conditions. Our top line was up 6.9% in the third quarter and up 5.8% in the 9-month period. Like in previous quarters, we remain focused on constant improvement in the mix of business. Part of this is actively managing the book across the pricing cycle and maintaining a high level of diversification.

In addition, we're employing new analytical and business process tools, in some cases, increasing demand by making it easier for our clients to do business with us. That said, across the entire business, rates have flattened out with some lines of business, like property, experiencing reductions. Offsetting that pressure somewhat, we're achieving strong rate -- strong retention rates in both our well-performing books of business, those we're actively working on improving risk selection. Our results reflect some of the impact of these initiatives, but we expect to see further improvements going forward.

Now let me briefly comment on each of our operating segments. In our Excess and Surplus Lines business, gross written premium was up 10.9% in the third quarter and 12.7% for the first 9 months of 2015 compared to 2014. We're achieving growth in our casualty units, our largest business by volume within E&S, by nearly 20%, reflecting the benefit from our investments in technology and overall process improvement. Our E&S premium growth also reflects the contribution from new teams and product lines. Over the last year, we have significantly reduced our exposure to Transportation lines and have now returned that much smaller business to profitability. On average, rates were modestly down across the segment, other than property, which was down a fair bit due to continued competition.

This quarter reflects the significant work that's gone into improving the results in certain businesses in our Commercial Specialty segment. Overall, premium was up 6.6% in the quarter and 5.8% in the first 9 months. Growth was driven by our program, public entity and surety businesses. In several of our businesses in this segment, we continued to achieve rate increases that are in line with the targets we've set. Despite this, we're seeing a continued increase in competition, especially in areas such as the public entity and mining businesses.

Argo Insurance, our retail insurance business, is now under the new leadership of Rooney Gleason, who -- whose experience in distribution and risk management technology applications will strengthen our ability to provide market-leading solutions for our clients and look for us to talk more about this in a couple of quarters.

Turning to Syndicate 1200. While our results remained solid and consistent, pricing and competition remained intense across all the Lloyd's market. We grew our gross written premiums by 7.5% in the third quarter and 4.4% in the first 9 months of 2015. Growth, while modest, is being driven by the North American binder business and new risks we've added in recent years. The growth in these areas is being offset by price competition in U.S. direct and facultative property, energy and also our aviation portfolio, particularly, airlines. In addition, the increasing practice of moving open-market business in the facilities has begun to put pressure on acquisition costs to insurers, particularly ourselves. In fact, you'll note a slight increase in our expense ratio year-over-year for the third quarter, which was driven almost entirely by increased commission expense.

Overall, gross written premiums in our International Specialty segment declined 1.3% in the third quarter or 4.5% in the first 9 months compared to 2014. The decline in top line in the quarter reflects a decline in foreign exchange related to our business in Brazil as well as a reduction in our top line for Argo Re.

In our Bermuda excess and casualty -- excuse me, excess casualty and professional liability business, we continue to see strong new business flow and higher renewal retention, however, rates were slightly down across the book.

Just going back to Argo Re for a minute, I should also add that reduction in top line is mainly driven by competition in the marketplace but no differently than what we expected for the quarter.

Turning to investments. Our investment portfolio declined just over 1% for the quarter. As many of you know, the third quarter provide-- to be quite a challenge as markets continued to grapple with concerns about slowing growth in China, oil price volatility and uncertainty surrounding the timing of the Fed's first interest rate hike. And U.S. equity markets were a bit challenged as was our portfolio. Just to give you an example, a lot of our -- we have a lot -- we have a fair amount of exposure to energy stocks, and they fell over 17% during the quarter. Some of that's rebounded since then. In fact, as of today, we've made back more in the portfolio than the declines of the third quarter.

Our net investment income for the quarter was $21.3 million, down slightly from the prior quarter but up from the prior year. The prior quarter comparison is impacted by the timing of dividends from a private investment. However, our book yield has reached an inflection point versus both prior quarter and prior year, meaning, we would expect higher investment income in the quarters that follow, especially if and when risk-free rates move to more normalized levels.

Moving on to capital management, our philosophy has not changed. As you heard me say in the past, our first use of capital is to support the balance sheet and the ongoing business that we have then to save capital for available opportunities as they might arise and to then actively return excess capital to our shareholders in an effective manner.

During the quarter, we repurchased about $4.8 million worth of stock at an average price of $55.27. In the first 9 months of 2015, we've repurchased almost 600,000 shares for just under $30 million at an average price of $51.58. In total, over the last 6 years, we returned more than $421 million of capital to shareholders, with $330 million returned through share repurchases and $90 million paid in cash dividends. We will continue to balance the return of capital to shareholders with our priority of building the Argo franchise and shareholder value in the long run.

As we look to the fourth quarter of 2015 and, more importantly, 2016, our focus will remain on an excellent customer service, generating growth in book value and providing stable returns to shareholders.

With that, I will turn it over to our CFO, Jay Bullock.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Thanks, Mark, and good morning, everyone. I'll provide some detail on the financials, and then we'll open it up to Q&A.

As highlighted, growth, while modest, was achieved in all of our business segments in the first 9 months of the year. But perhaps of greater significance was the improvement in the ex-CAT and ex prior year development loss ratio in 3 out of our 4 operating segments. This trend has continued over the last 3 years and is the primary contributor to the growth and underwriting income Mark mentioned. That higher underwriting income enables us to report an annualized net income return on equity of 10% despite a lower level of gains reported from the investment portfolio. Of note, related to loss trends, the third quarter and first 9 months of 2015 were characterized by continued overall favorable reserve development from prior accident years and a moderate level of catastrophe losses. For the quarter, we experienced net favorable development of $6.6 million, which is a few million greater than reported in the third quarter of 2014.

In this year's third quarter, we had favorable development in all of our ongoing business segments. The largest component of this quarter's release was from our E&S business at $10.1 million concentrated in casualty lines. This development was partially offset by a charge to our run-off segment as this is the quarter where we typically take a close look at the provision for A&E and risk management. The year-to-date favorable development is $15.3 million, which continues the long-term trends referenced earlier. All the relevant figures on loss development are displayed in a table in the press release.

In the third quarter of 2015, we posted a current accident year non-CAT loss ratio of 55.8%, essentially flat with the 56% posted in 2014 third quarter. Catastrophe losses that impacted our business for the quarter were $13.1 million compared to $5.5 million in the third quarter of 2015 and stemmed largely from the Tianjin explosion, approximately $8 million, and various other smaller U.S. storms and international events.

As Mark mentioned, we continue to see a positive trend in our expense ratio, reporting a ratio of 38.4% in the quarter, down from 39.6% a year ago. And while our central focus remains the expansion of underwriting income, be it from loss or expense ratio improvement, there is a significant amount of work underway in the organization that continues to address our relative efficiency. We're examining each of our functional support areas as well as each business, often asking the question what can be supported across a broader area of the group. We'll continue to report on these efforts in coming quarters.

For the third quarter of 2015, the effective tax rate for the group was 2.5% and through 9 months, 8.5%, both lower than our expected 20%. The tax rate for the year has been affected by a number of onetime items, including certain foreign currency adjustments and credits in our U.K. operation, the receipt of a state tax refund in the U.S. as well as by an increased level of earnings in 2015 attributable to our operation in Bermuda.

Finally, to the balance sheet, we ended the quarter with a pretax unrealized embedded gain of $100 million, down from $167 million at June 30 and $197 million at March 31. This decline was related to wider spreads in U.S. corporates and municipals, movement in foreign currency related to certain currency derivatives and the realization of unrealized gains from the sale of some equity positions. As Mark pointed out, most of the decline in the quarter has been -- more than the decline in the quarter has been regained in the month of October.
Operator, that concludes our prepared remarks, and we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Greg Peters from Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I had a couple of questions. If I look at the gross written premium on a consolidated basis year-to-date, up 6%, almost 6%, which is a pretty solid result in a competitive market. When I think about the opportunities for growth next year and the puts and takes with pricing in the competitive marketplace, what kind of result do you think is -- do you think you can achieve a similar type of result next year? Or do you expect it to step down a little bit?

Mark E. Watson
Chief Executive Officer and Director

Actually, I think that in terms of top line next year, even with the market where it is, I think we have an opportunity to grow at a similar rate, and I'll tell you why. I think that as long as we continue seeing strong growth in our casualty segment within E&S, it maybe won't be 20% next year because that's awfully robust. But even if it's double digits, I think that moves the needle quite a bit. Within Commercial Specialty, while I was happy to see us grow a little bit this year, we've still been in retooling mode. Having said that, I think that whatever new premium write will be offset by the elimination of some small counts in our Argo Insurance segment. We have a number of initiatives going on in the syndicate that I think will lead to modest growth, and I'll define that as somewhere between 5% and 7%. It's a little early to tell right now though, given how competitive things are here in London. And then in our International segment, I think that if the real settles out, I think we will see some growth in Brazil. I would expect our business in Bermuda to remain relatively flat both for insurance and reinsurance. So plus or minus 5%, but I think relatively flat. But I think when you add it all up, I think that we still have an opportunity to see a similar amount of growth next year on the top line.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

That's great color. A couple questions on the expense side. And I recognize, Mark and Jay, you both touched on the issue in your prepared comments. But Syndicate and International Specialty didn't show year-over-year improvement. Your other businesses did, and you did on a consolidated basis. Should we be thinking in the context of eventually you're going to start to show some improvement in those 2 businesses that are lagging right now? Or because of the competitive environment, should we hold out sort of steady-as-we-go sort of outlook?

Mark E. Watson
Chief Executive Officer and Director

Well, I think -- so the -- I'm going to give you multiple answers. I think that, in general, we will continue to see improvement in the expense ratio across the board. I think that some of that is going to come from additional earned premium. Some of it's going to come from us beginning to streamline and simplify our operations, and I think some costs will actually come out of that. We began working on that a few months ago, and I'll have more to say about that next quarter. I think offsetting some of that will be the reality that in this market, we're all having to pay more acquisition costs or higher commissions than we were a year ago. That was the pressure that you saw in the syndicate that I mentioned earlier, and actually, that was pressure in International Specialty as well. So that's a little harder to control because it's -- the market is the market. Having said that, I think if we can continue to grow our earned premium modestly that we'll continue to see improvement in the expense ratio. And I'm sure Jay will jump in a minute and remind everyone that we're more focused on the combined ratio as a whole, but I was very pleasantly

-- pleased to see the expense ratio improvement in the U.S. businesses finally start to play out in the financial results.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Jay, on the expense side, in the last conference call, you talked about the impact on a higher stock price in terms of incremental expense. And I'm just trying to gauge how I should be thinking about that. Since the end of the quarter, the stock has performed quite well and actually has performed well on a year-to-date basis, too. But if I look at the price of the stock at the end of the quarter, it was $56 and some change, and yet there was a high in the quarter of $59 and some change. And the difference between the 2, based on where the stock is today, can add up to a couple million dollars or more in terms of incremental expense. So what -- how should we -- how should the formula -- how should we calculate the formula?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Well, I'll go -- I'll kind of go through the comment that I made last quarter, and the one thing I will say is caution everybody that if it were -- it's somewhat of a spreadsheet exercise, but it's never perfect. We're dealing with the option math and other things and forfeiture rates and so forth. But we expect to see in any given quarter the stock to go up, call it, 2% or 3%. If we expect growth in book value to be between 8% and 10% a year, and it does that divided by 4, that's kind of what we expect to see in the stock price. We had the good fortune of seeing it move up to a more reasonable valuation level recently. But embedded in that increase of 2% to 3% is probably $2 million to $3 million of LTI expense. Beyond that, it's kind of every dollar increase is somewhere between $1.5 million and $2 million of additional expense. So the extrapolation to movement in the fourth quarter or movement in October is appropriate if and when the stock closes out the end of the year at that same level. Intra period is not as impactful as the start and end of a given quarter. And that's...

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

So the...

Jay S. Bullock
Executive Vice President and Chief Financial Officer

And Mark -- sorry go ahead, Greg.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

No, no. You -- what were you saying? I'm sorry.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Well, Mark was pointing out, it is a noncash charge in the period that we recognize it.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Right, right. So okay, I'll use the end of the quarter as sort of a bogey or a baseline. The final question is capital management. I think your run rate the last couple of years has been between $40 million or $50 million of stock repurchases. Year-to-date, it seems to be like you're running a little bit below that run rate. And I'm wondering if now that the stock is above book value, if it's changing your calculus or if there's a change in your perspective towards share repurchase.

Mark E. Watson
Chief Executive Officer and Director

Well, remember in the third -- the third quarter is usually pretty light because we're in the CAT season, so we don't tend to buy back as much in the third quarter.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Yes. So otherwise, there's no change in your approach, and I think you highlighted it in your opening comments. Is that...

Mark E. Watson
Chief Executive Officer and Director

No. I mean, look -- yes, if you go back and look historically at how we've repatriated capital, I think I talked about the last 6 years. But if you go back, you can go back longer than that. And depending upon what we thought was appropriate at the time, we've either bought back stock, we've pay dividends, we've paid stock dividends, and we've also done onetime dividends as well on top of our regular dividend. But I think we've got a -- we have a number of tools available to us to repatriate capital depending upon what we think is best for shareholders and best for the company.

Operator

Our next question comes from Christopher Martin from Macquarie.

Christopher William Martin
Macquarie Research

So one thing I want to touch on is something you mentioned last quarter is that you'd seen sort of -- regarding M&A, more resumes coming in, in like the first 6 months of the year than you had over the past 6 years. Has that sort of continued? Or has it sort of cooled down like the rest of the market has?

Mark E. Watson
Chief Executive Officer and Director

No. We've got even more now than we did the last time I mentioned it.

Christopher William Martin
Macquarie Research

Are these mostly smaller like statutory players or sort of globally? Can you sort of talk about what kind of resumes you're getting in?

Mark E. Watson
Chief Executive Officer and Director

Well, without turning this into a recruiting call, I mean, we're getting interest from mainly our global specialty competitors and not just underwriters but people in all skilled positions across the organization.

Christopher William Martin
Macquarie Research

All right, got it. And then sort of looking at the reserves in the run-off book, you had mentioned that was sort of running off at $10 million to $15 million a quarter. Is that sort of after your last review what you anticipate moving forward? And sort of did your review this time go more or less as expected?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Yes, I think what your -- Chris, what you may be referring to is the payout of those reserves over time?

Christopher William Martin
Macquarie Research

Yes.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Right, and I'm going to use some round numbers. $200 million is the [indiscernible]risk management book, $50 million is A&E. The risk management book has a declining payout pattern because you end up with some lives -- some permanent and total disabled lives that go on for a long period of time. So that's slowed somewhat, although we still continue to see a decline in the total level of reserves outstanding. It's much less than 10% of the portfolio today. In terms of what we saw in the quarter, total was about $7 million. It was a little bit from risk management, but it was mostly from the asbestos and environmental. That's a lighter number than what we've seen in prior years, and don't -- I don't read too much into that, other than it was nice to see that number declining a bit.

Christopher William Martin
Macquarie Research

All right, great. And then sort of sticking on the reserves. So the commercial book year-to-date still has a grossly adverse but was a solid quarter. Was there sort of any lines that came in more favorable or unfavorable compared to what your expectations were?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Well, in any one of these quarters, there's an up and a down, right? And so that's a -- that is, just as if we spent the time and disclosed how much got into the E&S book, you'd see mostly up and maybe 1 or 2 lines with small adjustments. The good news in Commercial Specialty this quarter is we had a couple of businesses that were favorable, and the ones that were -- that had any adverse development had relatively very small amounts of adverse development.

Mark E. Watson
Chief Executive Officer and Director

Yes, it's millions of dollars up and down. It's not big numbers.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Yes. There's no one big positive number carrying a large negative number.

Operator

Our next question comes from Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

E&S growth is very good to see. Could you give us maybe some color how much is coming from business flow, just more business coming through the pipe? How much is coming from the economy, more construction, more lives? And how much is -- you just grow in different areas?

Mark E. Watson
Chief Executive Officer and Director

Well, for E&S, I think it's all 100% what's in the pipeline. Sorry, the growth is coming from what's already in the pipeline. And I think I talked about on the last quarter's call or perhaps 2 quarters ago, we're doing a better job of taking advantage of what's coming through our pipeline today. So we haven't been trying to expand the pipeline or expand product offering too much but rather do a better job of servicing our clients' needs from submissions that are already coming in the door, and we've changed the way we get work done, which has helped a lot. And of course, the technology investments that we've made have helped as well.

Adam Klauber

William Blair & Company L.L.C., Research Division

Okay. So there's really not much change in the mix of the business or the type of the business, products. Would you say more property, more casualty? Is it just more of the same?

Mark E. Watson
Chief Executive Officer and Director

Yes, I would say that we've been more focused on writing the casualty opportunities that have come in the door than the property, because property is so competitive at the moment. There's probably a bit more property we could write if we wanted to, but we're not so inclined to chase the market down. I mean, Adam, the reality is we still got more business coming in the door than we can handle. So our challenge isn't to go find new customers, it's to make sure that we can service the ones we've got.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then on Commercial Specialty, over the last couple of years, you've done a great job of really managing margin, improving the profitability there. Over the long term, is that -- does that have a potential to be a sub-90% combined, similar to the E&S business?

Mark E. Watson
Chief Executive Officer and Director

Well, I guess the answer is it depends on the market. If you go back and look at our financial results in 2006 and 2007 and perhaps even 2005, Commercial Specialty ran in the 80s and actually generated a better return on capital than E&S did. Was that a fleeting moment in time? Or was that a reflection of what it can do? Ask me in a couple of years. But I think that I think right now we've got all the businesses, but one, running the way we'd like. And I think we've got a clear line of sight on getting Argo Insurance back to profitability by the end of next year on a stand-alone basis.

Adam Klauber
William Blair & Company L.L.C., Research Division

And then also, you mentioned that some pressure on the commission line. And that ebbs and flows of the business when the market gets tough, that tends to happen. Is that also a function of, particularly the international markets Lloyd's the distribution is a bit more concentrated these days?

Mark E. Watson
Chief Executive Officer and Director

For sure. I think that the larger brokers here in London have a lot more leverage today than they did before. Having said that, the majority of our premium comes from kind of that next tier down of broker. But even they are exercising a bit of leverage right now on all of this in the marketplace.

Adam Klauber
William Blair & Company L.L.C., Research Division

Sure. Any of them softens...

Mark E. Watson
Chief Executive Officer and Director

Yes, point of commission -- a point of commission doesn't sound like a lot. But actually, a point of commission is just another point of the expense ratio.

Operator

[Operator Instructions] Our next question comes from Arash Soleimani from KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

I have a couple questions. I guess can you talk a little bit about your expectations for the core loss ratio? Obviously, it looked good this quarter. Just wanted to get your thoughts on the loss ratio going forward, excluding CATs and the favorable development, if you think that momentum can continue.

Mark E. Watson
Chief Executive Officer and Director

Well, this wasn't like the first time that's happened. Our loss ratio ex-CAT, ex-reserve development has been running in the mid-50s for a while now. Jay, you can jump in and refresh our memories of how long that's been going on, but it's been quite a while. So I do see that continuing. It may move around a point or 2, but I don't think we're going to see it move up and down 10 points.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

And I guess the only other thing that I'd add to that, I might find a chart here in a minute -- the only other thing that I'd add to it is there's nothing in the quarter that I find aberrant, either up or down, to the extent we had a line of business where we thought, "Hmm, we might have to increase that loss pick a bit." And that's $0.5 million or $1 million there or maybe a large loss that might have been more than a large loss hold. But nothing -- I think it's been pretty consistent for a while, so I don't see anything that says that, that -- there's nothing fluke-ish about that number, I guess, is my point.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's helpful. And I guess my other question on the -- on the ROE side, obviously, the results looked good on the combined ratio this quarter. Investment income looked good. When can we start to see the ROE start to -- the gap between Argo's ROE and sort of the specialty to your group's ROE. When do you think we can expect to see that narrow a bit?

Mark E. Watson
Chief Executive Officer and Director

Well, I think it narrows every quarter. So I would keep looking for next quarter, and I think you'll see it narrow a bit more.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Remember a part of what -- part of the message -- and I don't want to lose sight of this, but part of the message at beginning of the year was we have changed a part of the -- and change over a 4-, 5-year period that added an element to the investment strategy, it takes what used to be some income and runs it, and now comes through recurring gains. We think on an average year, that's probably going to contribute, meaning, average markets average year, $15 million, $20 million or so. So I would encourage you not to overlook that when you're thinking about the total return, the ROE.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's fair. And I guess, finally, you guys talk a lot about the technology investments that you've made. And I know it's hard to quantify, but to what extent do you think that that's really fueling some of the growth that you've been seeing? Is that a major contributor?

Mark E. Watson
Chief Executive Officer and Director

Yes. For the businesses where we made that investment, I think it's allowed us to stay in the game and be very competitive. Had we not made those investments, I think our top line would look a lot different in the U.S.

Operator

Our next question comes from Ken Billingsley from Compass Point.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

I'd like to just kind of add on to the technology question. You talked a little bit about some -- maybe potential expense savings in technology investments. Can you give us some more color in the next quarter? Can you talk about the costs and maybe where that's flowing through in the income statement and maybe how much that might be moving the needle a little bit? That -- and how long you expect that cost to be in the model?

Mark E. Watson
Chief Executive Officer and Director

Well, the kind of-- I'll let Jay answer the second part. The point I was trying to make a minute ago is I think that we've done a good job of leveraging -- well, building something we can now leverage, and we're just beginning to. We've changed our workflow, and as we -- it's like a lot of things right? The minute you change one thing, then you realize other things that you can change. And one of the things that we've realized over the last couple of months is at the rate of change that we've got going right now with our ability to leverage technology, not only what exists today but what's coming next, and the way we do work, we think we can continue changing the way we do work and streamlining the way we do work. And we think that will -- for the last couple of years, Ken, you heard me talk about how we're building a platform that we think we can leverage. And the expense savings, or I should say, the positive change in the expense ratio is likely to come from revenue growth as opposed to cutting expense, and I think we've now discovered that actually there's some expense to be taken out. And I don't want to speculate on that right now, so you can ask me that question again in 3 months. But I think there's some opportunity to pull some expense out over the next year that will move the needle as well that's complementary to some of the things we've already started.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

And could you talk maybe -- has there been -- I mean, have you -- can you talk about what you've spent that may be outside of a normal recurring expense over the next 2 or 3 years that maybe able to come out that maybe is in these numbers. Is it 0.5 point, 1 point that you've spent on these initiatives? Or is there some more that you need to spend that we just need to be aware of over the next 12, 24 months?

Mark E. Watson
Chief Executive Officer and Director

Yes. So like with all big capital projects, they're amortized over a period of time. And the expense load that's in the U.S. business for that in any 1 year is several million dollars. We haven't said exactly, and I don't think I want to be any more specific than that.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

Okay. And I would imagine just in the current market environment, you talked about there might be some place to actually pull some expense out, but it was -- a lot of it was supposed to come from growth. I guess it's kind of a struggle in this current market, not for you, but for everyone, given the competition to really let the model work out properly [indiscernible] leverage.

Mark E. Watson
Chief Executive Officer and Director

Sure. Yes, and that's why I was trying to make the point a minute ago that I think that -- before I said, "Look, don't count on the expense ratio to come down until revenue goes up." And what I'm seeing now is that I think there is an opportunity to not only grow revenue but cut expense. So I think we'll have an expense ratio benefit -- or non-acquisition expense ratio benefit from both.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

Okay. The other question I had was on comments that you made earlier. Sorry to bring you back to the beginning. But you talked about Transportation and you reduced your exposure. There's been some commentary this quarter already about that certain lines of transportation, I know it's pretty broad, are looking like the fundamentals are starting to improve and maybe some rational pricing. Do you see that in your own book as a place to move back in because pricing is better? Or do you see that you still need to reduce your exposure right now with the current mix of business you have?

Mark E. Watson
Chief Executive Officer and Director

Yes, so we've seen the same thing. I don't -- so there's nothing else for us to reduce. While we expand our Transportation book a little more, we might. I mean, we didn't cancel everything. We just canceled the things that we thought, for sure, don't make money over a market cycle. So the easiest one to talk about, of course, is long-haul trucking in the U.S. Even if rates go up there, I don't think you'll see us come back into that. I think right now, we'll spend the -- I think we'll spend the next 6 to 9 months just watching what's really going on in the transportation market. If there's a class of business that we really like, that we think we can do more, then we absolutely will. We're not afraid of transportation. We're just -- we just know there's certain parts that empirically don't make money.

Operator

This will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Watson for any closing remarks.

Mark E. Watson
Chief Executive Officer and Director

I'd like to thank everyone for joining the call today. I'd also like to thank everyone for their patience.

I think that we're now finally starting to see in the financial results a lot of the work that we've been doing for the last couple of years. We still have a lot more work to do, and we look forward to talking to you at the end of the fourth quarter on how we're doing. And again, thank you for your time today.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.