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Argo Group International Holdings, Ltd. NYSE:ARGO

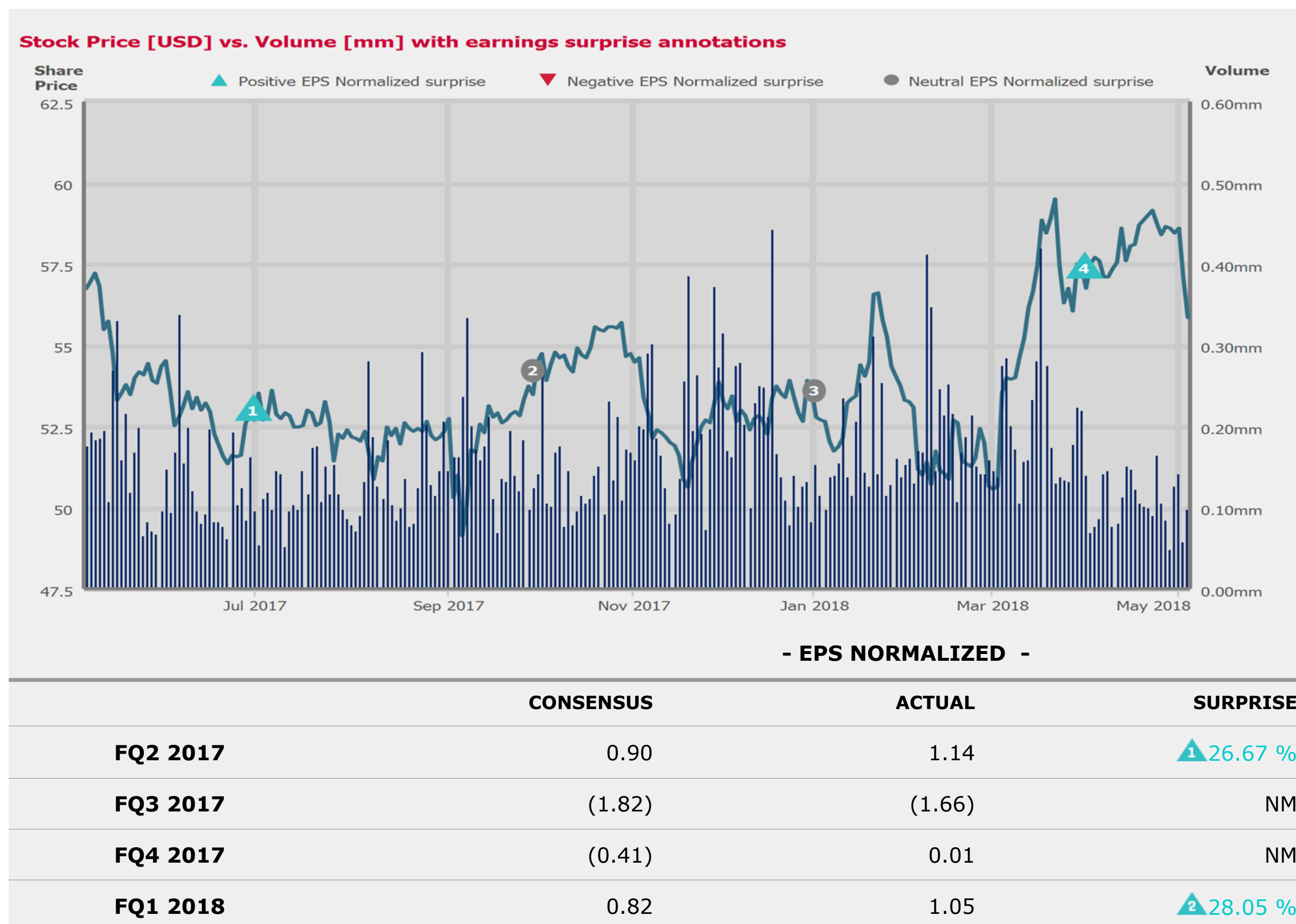
FQ2 2018 Earnings Call Transcripts

Tuesday, August 07, 2018 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.89	0.95	▲6.74	-	3.51	3.93
Revenue (mm)	459.50	463.30	▲0.83	471.70	1852.85	2030.50

Currency: USD
Consensus as of Aug-06-2018 11:20 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.90	1.14	▲1 26.67 %
FQ3 2017	(1.82)	(1.66)	NM
FQ4 2017	(0.41)	0.01	NM
FQ1 2018	0.82	1.05	▲2 28.05 %

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Presentation

Operator

Good day, and welcome to the Argo Group 2018 Second Quarter 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, Investor Relations. Please go ahead.

Susan P. Spivak Bernstein
Senior Vice President, Investor Relations

Thank you, and let me add my welcome to Argo Group's conference call for the second quarter of 2018. 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 Financial Officer; Axel Schmidt, Chief Underwriting Officer; Mark Rose, Chief Investment Officer; and Jay Bullock, Chief Financial Officer. As the operator mentioned, this call is being recorded.

As a result of this conference call, Argo Group 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 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 now to Mark Watson, Chief Executive Officer of Argo Group. Mark?

Mark Edmund Watson
President & CEO

Good morning, and I'd also like to welcome you to today's call on the second quarter and 6 month 2018 results. As reported, second quarter 2018 adjusted operating income was $0.95 per diluted share. Adjusted operating earnings for the first 6 months of 2018 of $2 per diluted share compares to $1.76 per diluted share in the first 6 months of 2017. While the quarter result reflects a decline from $1.14 per diluted share in the second quarter of 2017, last year's result included a onetime gain from the sale of an equity investment that benefited earnings in 2017 by approximately $0.26 per diluted share.

Before we go through the financial details of the earnings report, I'd like to make a few comments on current industry trends and how Argo is positioned in the market. At Argo, nearly 2 decades ago, we identified technology as a transformative and potentially disruptive force that would ultimately change the way business is transacted in the insurance market. Ours is an industry that historically has been slow to adapt to change and so it should have come as no surprise that it took longer than we anticipated for those trends to emerge. Fortunately, at Argo, our size allows us to be nimble and responsive. As well, our commitment to developing our digital platform provides the opportunity to anticipate the changes in the business model while the industry adopts existing ideas. Recently, we've been providing updates on our ongoing digital initiatives, and we'll do so again later in my commentary.

Another topic frequently debated is why do the pricing cycle still exist. Just to be clear, we don't run our business based on the existence of a pricing cycle. And if you're a company with the strategy that relies upon the elusive hard market emerging to achieve rate adequacy, I think that this is a strategy that's probably not going to work any longer. As seen after any of the recent loss events, capital is readily available, and will flow in and out of the market as needed. In my opinion, the winners in the current environment are companies that focus on clients and make it easier for them to transact business, grow

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profitably well, continuing to invest in their business going forward and have strong risk and capital management capabilities.

Now let me talk about our operations. In the U.S., gross written premiums rose 12.3% in the second quarter and 11.9% for the first 6 months of 2018. All business lines grew in the quarter with the strongest growth in professional lines. In the 6-month comparison, all business lines were up except for property, where we exited a program and have been very selective and in some instances have reduced exposure where we didn't think we had rate adequacy. Related to property, the ex-accident year loss ratio was 59% in the second quarter of 2018, which was up a bit from 57.4% in the second quarter of 2017, mainly due to a few discrete, non-cat attritional losses in our property book, and part of the reason that you see a decline in our premiums this year.

Pretax underwriting income in the U.S. operations was $26.4 million in the second quarter, which was down from $29.3 million in 2017. For the first 6 months of 2018, pretax underwriting income was $42.4 million compared to $50.1 million in the comparable period of 2017. That said, prior year development contributed an additional $14 million to the 2017 result, which explains a fair amount of a difference, if not all between last year and this year.

Our international operations also continue to execute on our strategic initiatives, as evidenced by improved underwriting results and targeted growth, most notably in Europe. The reported gross written premium decline of 9.9% in the second quarter of 2018 compared to 2017 primarily reflects reduced participation on Syndicate and reinsurance business that is offsetting strong growth in Europe and Latin America. This reduced participation is consistent with our expanding strategy of incorporating third capital in our operations. Across broader business lines, the primary driver of growth was in specialty lines.

From a profitability standpoint. The ex-cat accident year loss ratio was 58.9% compared to 56.3% in 2017 for the second quarter and 56.3%, up modestly from 55.5% in the first 6 months. Pretax underwriting results in our international business improved to $6.4 million from $1 million profit in 2017 for the second quarter, and $22.2 million for the first 6 months compared to $4.6 million a year ago. Here both the 3- and 6-months results benefited slightly from positive prior year development against, you may recall, some disappointing adverse development in the last 3 and 6 months from a year ago. You may also recall us talking about changes that we wanted to make to our international portfolio, particularly property underwritten in London and a few other classes of business in London. And I'm happy to report, as you'll hear from Axel Schmidt, our Chief Underwriting Officer in a minute, that many of the things that are playing through today were initiatives that he and our colleagues began over a year ago.

Moving to capital management. Our #1 priority remains deploying our capital into the businesses where we see attractive returns. This can be achieved through organic growth or by acquisitions. Earlier this year, we finalized the acquisition of Ariscom, a specialty Italian property, casualty carrier, while the a relatively small transaction, it further demonstrates our ability to identify and capitalize on opportunities we see to expand product offerings, enter new geographic markets and strengthen distribution relationships. As you have seen us do when we do not see opportunities to redeploy the capital in the business, we will return capital to our shareholders through share repurchases and dividends.

To that point, during the first half of 2018, we repurchased $20.4 million of our stock. And between stock buybacks and dividends paid, we've repatriated approximately $616 million of capital since 2010. And to just to put things in perspective during that same period of time, we have grown our GAAP book value from approximately $1.4 billion to a little over $1.8 billion.

Moving on to digital. Once again, we continue making significant steps forward toward our goal of using technology to reshape our business. Every part of our business, from distribution partners, policyholders to employees, are feeling the positive impact of our efforts in this area. Overall, we're pleased with the progress we're making in the digital space in terms of development of digital products, partnerships with insured tech-focused companies and modest strategic investments in tech-enabled ventures.

One example of how we're digitizing our operations to the benefit of our customers and partners is demonstrated in our casualty underwriting system. The system speeds and automates key parts of the submission handling process, allowing underwriters to quote more quickly. By the end of the second

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quarter, we were handling over 75% of our submissions in under 1 hour, with the application representing an enormous improvement over the first quarter average, which back then, and that was only a quarter ago, was 33%. This is a credit to our digital automation and operational streamlining efforts. This improvement also allows our distribution partners to be more responsive to their customers, providing them rapid assurance of effective and competitive coverage. And as we know the first to quote is often the one to buy.

In prior quarters, I've talked about the quick quote application that's helping automate quoting for a key line of business in our casualty portfolio. This application continues to grow. And our brokers -- our broker partners who get a digital quote via full service has increased from 18% to 23% of the brokers we work with. More coming. There's several initiatives underway to increase the rates still further, all the while maintaining 80% fully automated break for brokers submitted quotes that we mentioned last quarter. An average 15% month-on-month growth rate between January and June means over 60% of this casualty line now flows through our digital system.

Building on these successes, the application now becomes part of our digital centric launch of the Argo Construction business units in the third quarter, which we announced a few weeks ago. Last quarter, I also talked about a new quick quote application for our management liability business, where a key distribution partner can quote and issue policies entirely within the application. At the end of the second quarter, we launched the application 3 months ahead of schedule to a very positive response from our partners, a testament to our iterative customer-centric modern approach to digital product development.

In addition, this complete self-service rate, quote, buying and issue platform for small to midsized specialty business will be used to quickly deploy more semi and fully self-service lines of business to partners later in the year and into 2019. Another exciting element of this platform is our ability to pursue new lines of business that now become commercially attractive due to our ability to automate most or all of the underwriting process and staff minimal operational headcount against it. Look for more about this in the future quarters as we experiment with new opportunities along with our distribution partners.

This quarter, we announced our partnership with Corvus, a bank capital funded startup under smart Argo Insurance product designed to help food and beverage companies reduce loss of perishable goods. We like this line of business from an underwriting perspective and believe Corvus' approach could help us improve the loss ratio on the business we underwrite here for ourselves.

So in summary, we're seeing great progress in both our U.S. and international business. In the U.S., we're growing the top line and targeted markets maintaining profitability while continuing to invest in the business. We're attracting expert underwriting talent to the organization and developing new products to distribute on our digital platform. In our international operations, we are building a team of leading industry experts that have already demonstrated the ability to profitably build businesses in various geographic markets. I also have to say that I can't remember the last time that I was this optimistic about the future prospects of our growing platform or the talent within the organization.

I'd now like to turn the call over to Axel Schmidt to talk about some of our underwriting initiatives. Following Axel's comments, Mark Rose will update you on the investment portfolio, and then Jay Bullock will provide more details on the financials. Axel?

Axel Schmidt
Group Chief Underwriting Officer

Thank you, Mark, and good morning, everyone. As Mark mentioned earlier, those companies that wait for the half marker to emerge in order to achieve adequate returns will no longer be successful. But bear in mind, we take a very proactive approach to identify area of our business that require additional attention to maximize on earning returns. In group underwriting, it's a well-established process to identify underperforming products due to issues of scale or insufficient underwriting returns. There has been particular focus on Lloyd's Syndicate 1200 portfolio where, in mid-2017 we identified another product that were failing to meet the financial targets that we had set ourselves. At that point, we instigated a robust re-underwriting initiative for each product, with detailed action plans, timelines and associated financial metrics, in order to achieve [indiscernible]. These initiatives required collaboration across a wide group of

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stakeholders, including group underwriting, Syndicate management, the underwriting teams themselves [indiscernible] finance.

Echoing Mark's comments, this has resulted in a reduction in gross written premium as we have realigned portfolios of very common area that are causing a drag on results. As I've talked about in previous quarters, our strong focus is on underwriting discipline and underwriting profit, not for top line growth. We will continue to rebalance portfolios in order to meet on term underwriting standards, but actively pursuing possible growth opportunities across each of our platforms. One of our products identified as underperforming at Syndicate was our yacht portfolio. This was a traditional Lloyd's yacht business, placed through London wholesale brokers with a large number of facility arrangements. This account had been impacted by 2017 hurricane losses and was not achieving adequate rate increases to return it to sufficient profitability. Hence, we took the decision to cease underwriting this account effectively July 1, 2018. Aside from the business written into the Syndicated Lloyd's, we have added international platforms, including our Miami hub and [indiscernible] in Italy and also lead up to these platforms. We recognize the importance of establishing a consistent underwriting strategy and appetite across all lines of business, products and geographies.

We have also established an underwriting risk framework across the business to clear articulate what business ARGO wants to assume or not to, at a group-wide level. Ensures alignment and appetite across the group, and it helps to identify broad overlaps in appetite. The area of the framework is to better understand our global positioning, to sell more effectively and to ensure that profit opportunities are passed on to the appropriate teams within ARGO. We'll also benefit from improved risk management and the ability to identify potential profit growth areas in line with our risk appetite.

Overall, I'm very pleased with the progress that we are making in what is still a challenging marketplace. I remain confident that the steps we are taking to position our portfolios and to enhance our underwriting capabilities have already improved the underwriting quality of our portfolios. This will allow us to take full advantage of opportunities as they arise.

With that, I'll hand over to Mark Rose, our Chief Investment Officer. Mark?

Mark H. Rose
Chief Investment Officer & Senior VP

Thank you, Axel, and good morning, everyone. The second quarter -- I will go over the second quarter now in the investment portfolio. The second quarter total return was 0.5%, up sequentially but down versus the second quarter of 2017 where the results were 1.6%.

In the second quarter, the financial markets were dominated by several cross current trends. In the bond markets, rates began in the quarter where Q1 ended, moving higher, but the U.S. tenure topped out at 3.11% in mid-May and proceeded to grind tighter, ending the quarter only up 12 basis points or 2.86%. The short end of the yield curve rose 25 basis points being more sensitive to the Fed's June hike. So the curve flattened, investment grade bonds struggled, continuing the sell off and spread widening that began in February of this year.

In the equity markets, tech, energy and small caps led the markets higher, while safe havens such as consumer staples, stocks underperform. Possibly the biggest disrupter in the quarter was the strengthening of the U.S. dollar versus developed and emerging market currencies. The U.S. dollar was up 5.5% versus the euro and the sterling, and up 14.7% versus, for example, the Brazilian real. The reality of the Fed interest rate hikes versus the discussion of reduction of QE by other central banks supported the dollar versus developed markets. In emerging markets, the negative sentiment kept building whether it was from a major currency devaluation in Argentina, an election in Mexico, a trucker strike in Brazil or trade tariff negotiations.

For Argo, our core bond portfolio was basically flat in the quarter due to our short duration of 2.4 years, which includes cash. We were actually up with this portfolio before the impact of our non-dollar assets, which was a minor headwind. The currency drag was offset by some FX hedging and liabilities on our balance sheet. Our risk portfolio, which was down 0.6% in the first quarter, recovered with a return of

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1.6% in the second quarter. Our equity portfolio benefited from those market trends mentioned earlier. And also driving returns were solid performance from our alternatives, the hedge fund investments as well as PE structured funds and our internal special situations portfolio.

Finally, it is worth noting that while our net investment income of $69 million for the first 6 months of 2018 was down year-over-year by $5 million, and this was mainly due to the gains in 2017 that Mark mentioned earlier, the one-off gains, our bond income for the year-to-date 6 months was actually up in the period. Our core bond income was up 12% year-over-year and our risk portfolio bond income was up 40%, 4-0 percent, versus the first 6 months of 2017.

With that, I'll turn the call over to Jay.

Jay Stanley Bullock
Executive VP & CFO

Thanks, Mark, and good day everyone. I'll focus my brief comments today on some key highlights and explanations to the financial results we reported last night, and then open it up to Q&A.

Commenting first on revenue, as Mark discussed. The U.S. continues to perform quite well with growth in targeted markets, in many cases enabled by the investments in digitalization and technology. In our international segment, the second quarter revenue numbers are somewhat distorted by the decision we made at the end of 2017 to increase the amount of third-party capital participation, primarily related to the reinsurance lines of business.

Strategically, bringing in partners to share in the results of that business allows us to have a larger presence in the market while exposing our individual result of less volatility. Conversely, the growth in the first 6 months reflects the full 6-month results of the acquired Ariel Re business, which closed in February of 2017. The nature of business is such that a large portion of that business is underwritten at January 1.

Briefly on the loss ratio. As Mark pointed out, current exchange results remain fairly stable with the exception of a modest increase in property losses. As to prior years, both the 3- and 6-month result benefited from an increased favorable contribution from prior years with the 3-month result improving by $1.3 million and the 6-month result improving by $10.1 million. Catastrophe losses, while slightly different by quarter, were virtually the same year-over-year.

The expense ratio showed significant improvement, down 1.3 points in the quarter to 37.5%, and 1.5 points to 38.1% in the first 6 months of 2018. The improvement reflects the effective growth in our net earned premiums, ongoing initiatives to increase operating efficiencies, as mentioned above, and the increased scale of the platform.

Another item which bears some additional mention and explanation is the investment result, both the net investment income and realized gains. Mark Rose has already provided all the background on the trends, but trying to make year-over-year results a bit more comparable. First, on operating earnings. Last year's result includes the previously mentioned gain from the sale of a minority equity investment. This result was included in the operating result as we had previously reported the change of that value in the investment -- of that investment in net investment income. Adjusting for this onetime item, last year's quarterly operating earnings per share would have been $0.88 per share against a comparable second quarter 2018 result of $0.95 per share.

Turning to net income. The adoption per share -- the adoption of the change in reporting value movement in our equity portfolio led to us reporting a loss of $26 million for the first 6 months, which reduced EPS by approximately 61%. Again, isolating this one item, 2018 EPS would have been $2.53 per share against the 2017 6-month results of $2.32 a share.

A few final items on the financials. The income tax expense of $15.5 million through the first 6 months represents a 19% effective tax rate versus an assumed tax rate of 20% or roughly what we expect. There's been some variance quarter-to-quarter as we adjust certain elements of the structure in light of the changing tax rates and rules.

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Finally, a couple of comments on the balance sheet. As Mark mentioned, in May of this year, we closed on the Ariscom acquisition, a specialty, property, casualty writer in Italy. The financial results of Ariscom are included in the quarter's results. And while the P&L was fairly nominal, we did pick up approximately $50 million of net reserves in the transaction.

Next, with interest rates rising in the first half of the year, the embedded gain in the investment portfolio stood at $96 million, result of gains in our equity positions were offset by a modest unrealized loss in our bond portfolio. And finally, book value per share in the quarter was essentially flat, largely due to the decline in asset values and the effect of some dilutive securities.
Operator, that concludes our prepared remarks. We're now ready to take questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Greg Peters of Raymond James.

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

I have a couple of questions for you. First of all, from a big-picture perspective. I know you've made a lot of changes for the 2018 calendar year. And I'm curious if you have a perspective of how the results -- specifically, the catastrophic events that rolled through 2017, how that might look differently in 2018 if it were to reoccur exactly as it happened before?

Jay Stanley Bullock
Executive VP & CFO

Sure, Greg. This is Jay. We -- it's a good question. And I think we alluded to earlier this year. Last year, we were dealing with effectively 2 reinsurance programs, 2 retro programs. That's now 1. That same set of events last year run through the portfolio. If the portfolio hadn't changed, I'm going to get to that in a second, would have reduced losses by about $40 million with the existing reinsurance structure. That said, that doesn't take into account other changes that we made, such as the increased use of third-party capital and the reinsurance lines in our Syndicate 1910 work, which is where we write most of that business. So that number would be further reduced. In other words, the gross loss would be less and the net loss would be less.

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

Right. So on the alternative capital point. As I think about how the results have come through the first half of 2018 relative to at least what I was modeling. The biggest variance I'm showing is in the international operations. Where the gross written premium on a year-to-date base is up 9%, yet net written premium -- or 8%, excuse me, and net written premium I think is down about 9%. I know you don't like to provide specific guidance. But maybe you could help provide some color around how that might look for the full year as we think about, obviously, your increased emphasis around alternative capital solutions?

Jay Stanley Bullock
Executive VP & CFO

Yes, Greg, I'm going to go back to some of things that we talked about last year after the Ariel acquisition and talked about the size of that business. I think we notionally mentioned that it was, on a gross basis, $400-plus million, and we had a business that was, you can see it in our historical financials, $125 million to $150 million depending on the year. You put those together, they're not -- it's not 1 plus 1 because of the reinsurance portfolios, and so we optimize those. Meaning we don't just lay one set of risk on top of the other. As a result of increasing the third-party capital, we talked about that earlier this year. We've taken that up in the Syndicate 1910, which is the reinsurance business, we're retaining about 26% of that business. So you can do the math and figure out that the retained amount of business there is about $125 million, $150 million. A big chunk of it's written in January. So I think the ratios that you see in the second quarter should be fairly consistent for the rest of the year.

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

Great. On the -- more on the reinsurance side. On the balance sheet, I sort of track reinsurance recoverables, and that's tracking up. I assume part of that is reflection of the increase and just what's going on with the estimates from last year, or maybe some current issues as well. But can you provide us some color around your reinsurance recoverables in light of the alternative capital. If we have a hurricane

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or a couple of hurricanes in 2018, would we anticipate that recoverable number going up materially or provide us some color around how that might move?

Jay Stanley Bullock
Executive VP & CFO

It was really 2 pieces to it, Greg. One is -- and I'm going to try to answer this question as non-technically as I can. But certain of the legal entities that are providing -- the corporate entities that provide third-party capital are owned by Argo. They're backed by other parties and at 100% quota share behind those entities. We end up consolidating those entities, and so that brings on to the balance sheet recoverables and reserves that otherwise are spoken for by third parties. So that's part of it. And you'll see when you read it in the 10-Q disclosure about some of those things, that's number one. And number two, yes, of course, when you have a set of events like -- that happened in the second half of the year, you're going to have an increase in reinsurance recoverables. That number's already started to come down as we've gone through the first quarter. And the last thing I'll say -- and then I know Mark wants to make a comment. The last thing that I'll say is that the slate of reinsurance that we have hasn't changed much over the years. And certainly, the quality of those reinsurance hasn't changed at all, and it is all very high quality.

Mark Edmund Watson
President & CEO

Yes. And some of that is backed by funded Lloyd's as well. So if you look at the difference between loss reserves today versus the end of the year, while some of it -- while a part of it is a function of the acquisition that we made earlier, a whole lot of it is the fact that we're still growing. And as we grow, we add lost reserves, which is a positive thing. As respect to cat activity this year, just to repeat what Jay said a minute ago. If you take into consideration the consolidation of retro programs and our additional use of third-party capital this year beyond last year, if the same set of events happened again this year, another way to think about it other than just absolute dollars is loss ratio points for the year. And we're talking about 5 or 6 points instead of 8 or 10.

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

One final question. Mark, you've -- I'd be remiss, if I didn't note the nice improvement in the expense ratio in your U.S. operations both in the quarter and year-to-date basis. Should I look at the year-to-date expense ratio in the U.S. and sort of use that as a normalized run rate going forward or maybe you can comment on the success there? And what we should be thinking about going forward?

Mark Edmund Watson
President & CEO

Well, I think that it's always better to look at several periods of time to get a better sense for runway. So yes, I would focus more on the 6-month number than the second quarter number. Having said that, I think a lot of the things that we talked about a year ago that we said would start hitting the bottom line this year, which Jay alluded to earlier in the call, are happening. And it's not just in the U.S., it's group-wide. So we still have plenty of opportunity. And I think that over the next several quarters, we will see continued improvement in the expense ratio. I don't expect it to be linear. I think it'll be lumpy because 3 months is too short a period of time. But I think that the trend is directionally correct over the next 4 or 5 quarters.

Jay Stanley Bullock
Executive VP & CFO

I guess the last thing I'd say, and agreeing with what Mark said, I think it is important we guide it on overall basis, and 37.5% is material improvement. I think you'll see when we publish our 10-Q tonight -- and there's not what we would otherwise disclose, there's not any material one-off items that are affecting that ratio.

Operator

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The next question comes from Christopher Campbell of KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

I guess my first question is, if I'm looking at the core loss ratio, year-over-year, it's up about 200 bps. Now I know there was some non-cat weather, and this is overall, I know there is some non-cat weather and then some discrete Lloyd's things, and you're also less property and more causality, that'll drive it up. So how should we be thinking about, how much of – like what was the real underlying movement in that, if you strip out those kind of second-quarter specific things?

Jay Stanley Bullock
Executive VP & CFO

So there was 2 things going on there, Chris. Let's talk about the U.S. first, right, because you'd have to look at these in pieces. And the increase in the U.S., of that increase about 1.6 points was related to what -- like we called it discrete one-off property losses, which is kind of what they were. The international side is a little bit harder to quantify because there's 2 elements going on there. One, as I mentioned, we moved up our use of third-party capital in the reinsurance business. The reinsurance business is one of the lowest loss ratio of businesses that we have. That said, when we cede away some of that business, we also cede away some of that volatility. So it's a little bit challenging to compare last year's loss ratio to this year's loss ratio, but you can appreciate that a portion of that is therefore simply, what I would call, related to business mix. On top of that, it was about another point in the Syndicate that was related to -- we have a one-off cargo loss. Actually there was one other loss, that was sort of another property loss in Brazil, perhaps.

Mark Edmund Watson
President & CEO

[indiscernible]

Jay Stanley Bullock
Executive VP & CFO

Yes. So there was a couple of property losses that effected that by about 1 point.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, great. Well that's very helpful. And then just kind of thinking about your catastrophe experience this quarter, which was really good. How much of it was -- how much of this is just kind of "good luck" versus like all of your efforts on, like, to use like increased sessions in U.S. and then more Ariel Re property risk? Like and then how should we think about the cat load going forward, overall?

Mark Edmund Watson
President & CEO

So we don't really think about a loss experience from cat activity in the first half of the year as luck, one way or the other. The way that our portfolio is positioned, we don't really expect that much cat activity will emerge particularly in our reinsurance portfolios, except for some extreme events which we would not expect to happen every year or even every other year. So I don't think there was much difference between our cat activity this year or last year in the second quarter, in absolute dollars, perhaps in the percentage basis. But I mean the dollars are so small that I don't think it makes sense to focus on the percentages. And as far as cat load, well, that's really good question but I'll just refer you back to the answer that I gave a minute ago to a similar question which is if a similar set -- or the exact same events happened this year, as happened last year then that probably equates to 5 or 6 points on the combined ratio this year as compared to 8 or 10 a year ago.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

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Okay, great. And then just kind of switching gears, there were some articles this quarter about Argo being possibly interested in a sizable acquisition. So maybe you don't want to talk about that one specifically, but how does Argo think about, I mean, given the priority is organic and possibly inorganic growth for capital management. How does Argo think about potentially transformational M&A? Like what strategic and operational metrics would you prioritize? And would large reinsurance exposure will return around in EBIT, Argo in any way?

Mark Edmund Watson
President & CEO

Our main goal is to grow our business and grow it organically, which I think we've done a very good job of over the last decade. You'll recall that the previous decade included a significant amount of M&A including the acquisition of 2 independent public companies. I've been very, very transparent about us looking at things as opportunities present themselves when I think that they will help us achieve our strategic goals. And I think really good examples of that were the Aerial Re acquisition a year ago, which has proved to be a tremendous benefit to the company on many different levels that we've talked about in the past including the transformation from risk taker to originator and distributor of risk. And improving data analytics and improving intellectual firepower among our management team. And most recently the acquisition that we made in Italy that's improved our market presence and grown our product portfolio in Italy. But every time we think about things, we think about it in relation to what it allows us to do strategically. And you will note that over the last decade we have repatriated a substantial amount of capital to our shareholders and continue to do so.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Great. And so with scale or broker relevance, would that be something strategically you'd be looking for as well?

Mark Edmund Watson
President & CEO

The brokers that we're most focused on, we're growing with double digits this year. We have more policyholders today than we did a year ago. Our expense ratio is coming down, so I think those are all examples of us being at scale or at least getting very close to scale depending upon which part of the group we're talking about.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, great. Well, that's very helpful. And then just one final one for, I think, Jay. Looks like repurchases were a little bit weaker in the quarter. Anything driving this?

Jay Stanley Bullock
Executive VP & CFO

No, I think -- we've been in a blackout period, obviously. And we had a program in place. We had a price target on that program. We were occasionally above that price target, and that limited activity in the quarter. We always pay attention to what's going on this time of year and where the stock is trading. And we'll make decisions about how active we are as the year goes on.

Operator

The next question comes from Matthew Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Mark, thanks for all your comments in the opening about the digital efforts, I think that was helpful for us to get our hands around kind of some of the things you're doing. My kind of follow-up question would be,

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can you help us quantify either in dollars or expense ratio points, how you view that upfront investment? I understand that it never ends but it does sound like there's more of a real push being taken currently. And so how should we think about that in terms of dollars or points in terms of a drag on the expense ratio currently? And for how long do you think that keeps up before it lets up and becomes more of a maintenance sort of thing as opposed to a build effort?

Mark Edmund Watson
President & CEO

I don't know that it ever goes from maintenance -- from build to maintenance, at least in an absolute fashion, it may in a relative fashion as we continue growing the top line and the bottom line. We, as you just pointed out, very purposefully dialed up the pace of innovation and development this time a year ago. And said that we were going to really push hard in the near future to really build out our digital capabilities. And they're starting to pay off. You'll note that in our February earnings call, I talked about things generally, and you'll note that this quarter I've been a lot more specific about the numbers. I get -- I appreciate that I haven't talked about them financially yet. But I think that you'll see that coming very soon. Perhaps not the next quarter, but the quarter after that. And as you know, I like to talk about things that we've done, not what we aspire to do. And I think we're getting very close to being able to talk about the financial outcome/benefit of the digital investments that we've been making over the last 12 months, in particular.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. And then there's one other question. I appreciate the comments you had helping us on the property side of some of the reinsurance changes. There's been a bit more focus broadly in the market I think on some percolating loss cost in certain casualty areas. So my question is, can you help us with, in some of your casualty lines, I think maybe the access casualty would be one area or how should we think about max net lines that Argo might put out in some casualty classes?

Mark Edmund Watson
President & CEO

Well, I'm not sure that I follow the max net line we put out relative to things percolating. So let me just answer the question this way. Over the last decade, we've intentionally reduced the tail of our liability portfolio from what was 5 plus years down to less than 4. So that gives us a lot more flexibility to adjust our pricing if we see loss cost inflation trends that might drive unexpected loss emergence at an industry level. As respects our use of insurance to put out -- reinsurance to put out limits beyond what we want to take net, that is very market specific even within a line of business, casualty. It is very market specific, and depending upon what our customers' needs are, we have the ability through our reinsurance partners to flex to their needs, while keeping our net exposures relatively low in our risk tolerance.

Operator

The next question comes from Adam Klauber of William Blair.

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

A couple of questions. How were submissions in the E&S segment in the first half of this year compared to the first half of next year -- or the last year, sorry?

Mark Edmund Watson
President & CEO

I don't have exact number in front of me. Only to tell you that they are more this year than a year ago. Jay, you may have the number off the top of your head.

Jay Stanley Bullock
Executive VP & CFO

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No, I don't, I don't. But I think submissions are certainly up, I think maybe...

Mark Edmund Watson
President & CEO

And that was really the point of talking about all of our digital initiatives. What's driving a lot of that submission activity is a lot of -- our ability to be more dynamic with our customers and be more responsive to them, which is why I was talking about us being able to respond within an hour, and as I said, the person who -- the market that responds first typically gets the business.

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

Right, right. Great. And then also on the E&S. In general, I know it's different market by market and product by product, but are you seeing more interest in the standard markets coming into E&S-like risks or are they continuing to, on a granular basis, move out of the E&S-like risks?

Mark Edmund Watson
President & CEO

No, I think that the standard markets have been increasing their risk appetite for quite a while. In part, they've increased their risk appetite into risks that we might otherwise think of as E&S risks. But also a whole lot of what fits in the E&S market is mainstream business that's aggregated by wholesalers. And that's the business that we're seeing going back and staying with the admitted market and not finding its way into the E&S marketplace. But that trend has been going on for quite a while. What will be interesting to see is if cyber find its way out of the admitted market back into the non-admitted marketplace, where I think it ought to be, where it's a lot easier to create product innovation and find more dynamic solutions for business owners. But we haven't seen that happen yet, but hopefully we will see that over the next few quarters.

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

Yes, that would add a nice growth company. And then as far as the -- again, staying in the U.S., liability casualty business, is the -- would you say the legal environment is more challenging today than maybe 2, 3 years ago? And if so – or I guess what trends are you seeing in the legal environment these days?

Mark Edmund Watson
President & CEO

I think the -- if we limit our discussion to the U.S., I think the legal environment is always challenging. I think that we should never underestimate the plaintiffs' bar's ability to come up with a new noble theory of liability. But after all, that's what keeps us in business. And so it's our challenge to make sure we keep up with those. And having said that, I don't think there is anything that really stands out to me as extraordinary, that makes us really rethink how we're underwriting our portfolio at a broad level.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mark Watson, Chief Executive Officer, for any closing remarks.

Mark Edmund Watson
President & CEO

Thank you, and I would like to thank everyone for participating on our second quarter call today. I think when you compare to a year ago, there are a lot of really good positive improvements, particularly in our operations where we are getting to scale and our ability to be more responsive to our customers.

And we look forward to talking to you again at the end of the third quarter. And operator, that concludes my remarks.

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Operator

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

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