S&P Global
Market Intelligence

Argo Group International Holdings, Ltd. NYSE:ARGO

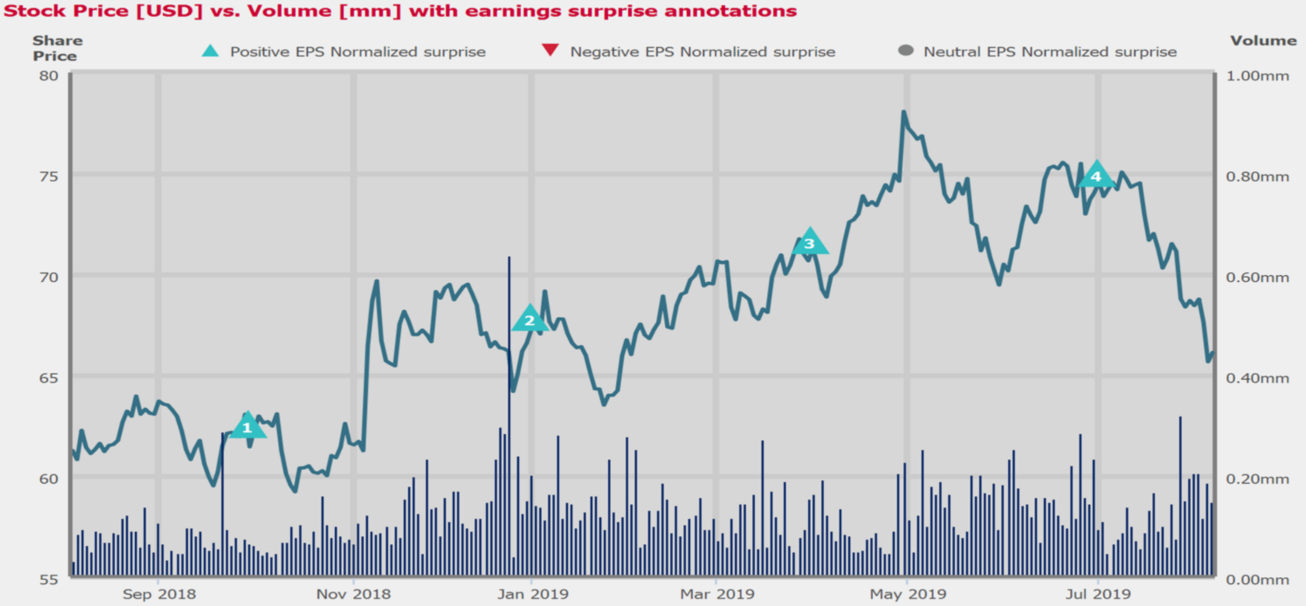
FQ2 2019 Earnings Call Transcripts

Tuesday, August 06, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.43	0.48	▲11.63	0.88	3.38	4.62
Revenue (mm)	480.35	488.60	▲1.72	486.98	1974.32	2128.55

Currency: USD
Consensus as of Aug-06-2019 2:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.62	0.68	▲9.68 %
FQ4 2018	0.13	0.55	▲323.08 %
FQ1 2019	1.03	1.18	▲14.56 %
FQ2 2019	0.43	0.48	▲11.63 %

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EXECUTIVES

Axel Schmidt
Group Chief Underwriting Officer

Brett Shirreffs
Interim Head of Investor Relations

Jay Stanley Bullock
Executive VP & CFO

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

Mark Edmund Watson
President, CEO & Director

Mark H. Rose
Chief Investment Officer & Senior VP

ANALYSTS

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

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

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

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

Presentation

Operator

Good day and welcome to the Argo Group 2019 Second Quarter Earnings Call. [Operator Instructions] Please note that today's event is being recorded. At this time, I would like to turn the conference over to Brett Shirreffs, Interim Head of Investor Relations. You may begin.

Brett Shirreffs
Interim Head of Investor Relations

Thank you, and good morning. Welcome to Argo Group's conference call for the second quarter of 2019. After the market closed last night, we issued a press release on our earnings, which is available on the Investor section of our website at www.argolimited.com.

Presenting on the call today is Mark Watson, Chief Executive Officer; Mark Rose, Chief Investment Officer; Jay Bullock, Chief Financial Officer. Kevin Rehnberg, Chief Administrative Officer and President of Americas, will also be available during the question-and-answer session.

As the operator mentioned, this call is being recorded.

As a result of this conference call, Argo management may make comments that reflect their intentions, beliefs, and expectations for the future. Such forward-looking statements are qualified by the inherent risk 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.

I will now turn the call over to Mark Watson, Chief Executive Officer of Argo Group.

Mark Edmund Watson
President, CEO & Director

Thank you, Brett, and hello, everyone. I would also like to add that Axel Schmidt, our Head of Underwriting, will be with us for the Q&A, as well.

Welcome to Argo Group's conference call for the second quarter of 2019. After the market closed last night, we issued a press release on our earnings, which is available in the Investor section of our website.

As we measure shareholder value creation, we've made some real progress at our half-year mark. For the first 6 months, Argo's growth and book value per share plus dividends paid was 10.6%, and our annualized return on shareholders’ equity was 13.1%. While our underwriting results in the second quarter were disappointing, we continue to make progress on the strategic objectives we're focused on delivering.

I don't want to lose focus on an outstanding result in our U.S. operations, which had record performance for the first 6 months. Let me share some details on our results, then I'll talk more about our strategy.

Our gross written premium in the quarter was $773 million, up 10% over our 2018 second quarter results. Similarly, at $1.53 billion, our year-to-date gross written premium is up approximately 9% over the prior year. The positive effect of that momentum was moderated by the effects of a number of loss items which we announced a couple of weeks ago. The net effect of these was an increase to prior year loss reserves of approximately $22 million, or 5.2 points on our consolidated loss ratio and an increase in our current year losses of approximately $10 million, or 2.3 points on our consolidated loss ratio for the second quarter.

The prior year development was concentrated in our Bermuda casualty business unit and, to a lesser extent, our European and London businesses within our international operations. Current accident year losses were energy and property related. All of this was partially offset by another modest reserve decrease in our U.S. operations, and Jay will provide some more detail on the nature of the losses and the specific actions we took in a moment.

While these loss items did adversely affect our second quarter results, this is a reminder that specialty insurance businesses is subject to occasional volatility, and we don't consider this to be any indication of a longer-term trend. To the contrary, our Bermuda casualty business has a strong track record of performance and profitability over the long-term. Over the past 10 years, this business has generated almost $600 million in gross written premium, with an underwriting profit of nearly $60 million. Despite the volatility this quarter, this business has generated strong double-digit returns on capital during that period of time.

It's also well worth noting that the results in Europe and London are primarily related to businesses that we've previously exited or we've taken aggressive remedial underwriting actions. It is also worth keeping things in focus. Even with this quarter's volatility, our year-to-date loss ratio is still at 61.3%, which I think in the environment we're in right now is a pretty good result.

Our strategy of focusing on profitable underwriting and relationships, portfolio investment and disciplined capital allocation continues delivering value to our shareholders. Our intent continues to be the evolution of a unique company with a meaningful breadth of products and differentiated businesses across key markets where our clients need us and it makes sense. We are becoming a digitally-focused specialty company, and where there are other opportunities, we take advantage of them. And we're doing just that as we continue to build competitive scale in each of our key operations. While our immediate interest is appropriately on well-executed profitable performance quarter-by-quarter, we keep our eyes on the horizon [for] engineering and business that can prosper in a variety of market cycles, one that prepares for continued success a decade or more down the road.

Over the years, we've demonstrated through our loss ratios that we're good at selecting risk. We're now acutely focused on improving our efficiency while maintaining our advantage in risk selection. We've discussed this as the natural next necessary step in our long-term strategy, which is the continued investment and technology to reduce cost, improve risk selection, and enhance customer experience.

Our net income this quarter was $28.8 million compared to $41.8 million in the second quarter of 2018. The quarterly loss ratio moved from 58.8% in the second quarter of last year to 66% in the second quarter of 2019. If we focus on the current accident year, excluding catastrophes, versus a year ago, the loss ratio was 58.9% for the second quarter this year versus 59.3% in the current quarter.

Turning our attention to the investment portfolio, the portfolio continued to perform well in the second quarter, with a total return of just above 2%, up approximately $100 million. Our total return for the first half of the year was 5.2%, up nearly $250 million or, to put it in perspective, on a percentage basis, we were up almost as much for the first half of this year as we were for all of 2017. Our Chief Investment Officer, Mark Rose, will provide more detail on these results in his remarks in just a minute. But let me just say that the investment result was, again a key contributor to the strong growth in book value per share in the core investment portfolio, and investment income in the quarter was up to $33.3 million for this quarter versus $28 million a year ago. And this is driven by another stronger quarter from our alternatives within the investment portfolio. And again, Mark will get into that more in just a minute.

If I break down the business operations for a minute, let's talk a little bit more about the U.S. first as we continue to leverage technology in our U.S. businesses, creating significant efficiencies, driving down costs, and enhancing customer service. Each consecutive quarter, as we look at the targeted growth and the improvement in margins, the benefits of our digital investments becomes increasingly more evident. With $454 million of gross written premium, the last quarter has been the highest second quarter in the history of our U.S. operations. And with year-to-date total of $864 million in gross written premium, it's our highest half-year result, as well. And I should also add this was achieved by actually reducing headcount, and thus keeping our expenses relatively flat over that period of time.

As a part of our continuing strategy to focus resources on our best-performing units, we moved our construction business out of its former home in casualty this year, creating the Argo Construction brand, which we've now launched. Two of our other units we identified for additional investment have again turned in strong results. Argo Pro grew by over 40% this quarter, and Argo Surety was up 20%. Growth in Argo Pro was supported by strong rate increases of over 10%, and we're continuing to see that in the recent months, as well. We also saw pricing improvement in many of our lines of business during the quarter, which gives me a lot of encouragement about our prospects, going forward.

Talking about turnarounds in our U.S. operations, I'd like to give a special thanks to Ray Hall, our Head of Contract P&C and his team, who've excelled at turning around a business that only last year we had a lot of questions about. Ray and his team are a perfect example of how Argo can take focus and resources and turn a business around in a short timeframe, and we saw this same transformation at Argo Insurance a year ago.

Our international result, as mentioned, were adversely affected by loss development in Bermuda casualty, Syndicate 1200, and the European business. To address the loss development, we're working on a remediation plan focused on 2 things. To improve our loss ratio, we're implementing rate and underwriting actions in Syndicate 1200, which we've been talking about for the last few quarters, and, at the same time, we're closing unprofitable cover holder relationships in our European operation.

To reduce expenses, we're also focusing on specific actions to lower acquisition costs in the syndicate business. Over the past 2 years, we've taken deliberate actions to increase rates and improve our loss ratio. For example, in Syndicate 1200, we achieved a cumulative risk-adjusted rate change of 9.3%. The D&F property business has seen the strongest increases, but we've achieved positive rate change across all lines of business in 1200, not just the D&F property book. Through underwriting actions, including business mix changes, appetite and cover holder relationships for the management of those, Syndicate 1200 is better positioned, going forward, we believe.

Similar actions were taken on our European business, where the number of cover holders was significantly reduced during 2018 and 2019. And I'm happy to say the loss ratio from the ongoing cover holder relationships is 17 loss ratio points better than the relationships that we terminated.

Finally, Syndicate 1200 has been executing a plan to reduce the acquisition costs through the mix of business and negotiations with our broker partners to reduce commission expense. Despite our losses on the international side, I want to point out that our international gross written premiums increased $27 million from $293 million in the second quarter of 2018 to $319 million this year, a gain of 9%; and again, much of this driven by the improving rate environment as compared to exposure.

I'd like to take a minute to talk specifically about technology. As you know, the velocity of digital transformation in our industry is increasing rapidly. Over 3 years ago, we established Argo Digital as a proof-of-concept along with our R&D team. Since then, we've deployed a number of solutions that have increased our efficiency, underwriting accuracy, and risk management, all leading to accelerated sales velocity and profitable growth.

Our digital teams have broad experience both in the insurance industry itself and in the kind of strategic digital conversion that will allow us to take advantage of the rapidly-advancing technologies available to us. We're now ready to pick up the pace of our own digital transformation, and we're looking at every corner of the company to make improvement. With the combined expertise of our digital teams and our shared services partners, we're now working toward rapid and sustainable transformation that produces 5 results - first, a company-wide digital vision with clear financial impact across the group; second, quality data, both internal and external, enhanced by data analytics at all levels to strengthen underwriting accuracy, reduce our loss ratios, and improve profitability; third, a strong, lean underlying system and workflow capability; fourth, digitally-driven processes both internal and customer-facing and that increased profitability and support incremental growth; and fifth, significant reduction in outsource costs.

I emphasize that, in our digital evolution, we have no interest in merely layering digital products or interfaces on the top of legacy analog processes. Our goal is to be digital from top to bottom in the future. We've started and will continue to reengineer all aspects of our business. We've started to implement machine learning and artificial intelligence more broadly, which I've talked about on previous calls, and we're now applying many of these tools to the solid digital solutions we have in place already.

Overall, our intense focus on transformation is showing immediate results across our business. One example that I want to focus on this quarter is what we refer to as Argo Compass. It's the innovative online broker-agent portal we developed to compete with the major casualty players in our industry. Argo Compass is one of the first products developed internally by Argo Digital, giving our partners real-time claims information, billing details and quick delivery of policy and endorsement documents.

Although such a service may now seem to be basic, even routine offering, our broker-agent partners and our larger risk-manage insurers have reported that Argo Compass is, “One of the best online systems they've seen”, from any carrier. Now that we've pioneered, tested and refined our Argo Compass software, we're ready to extend this benefit to all of our partners, not just the select few that were part of our pilot project.

In the third quarter last year, we launched a similar portal for Argo construction workers. And as we previously have talked about, we've improved quoting time from days to hours, and now I'm happy to say that, for some of our products, we've been able to take that from hours to minutes.

These innovations significantly reduce the costs associated with older manual processes that took up much of our underwriters' time and energy. Just as important, our proven technology should help us grow and retain the business that comes to us through our distribution partners. And just to put things in terms numerically, cumulatively, since we really got Argo Digital going, we've now written over $500 million of premium through Argo Digital.

So, to summarize Argo's performance across the second quarter and the half-year of 2019, our business has shown significant strength and agility in the competitive market and remains strongly positioned. We believe the combined result, led by our U.S. specialty operations, continues to prove the value of our diversity in the business lines, platforms, and geography. As a result of growing in target areas where we see the most profit potential, our business continues growing, and our expense ratio continues to improve as we remain focused on scaling our business and managing costs. While we always expect investment performance to contribute to our continued growth in book value, our goal is to achieve consistent results driven by underwriting and to generate a 10% return on shareholders’ equity. And I'm confident that we have the right team in place with the right skill sets and experience to do that.

We look forward to talking and updating you on our continued progress, going forward. And I'll now turn the call over to Mark Rose to talk about our investment portfolio in more detail. Mark?

Mark H. Rose
Chief Investment Officer & Senior VP

Thanks, Mark, and good morning.

Turning to investments, the second quarter total return was up 2%, or approximately $100 million. It was a strong continuation of the first quarter rally, bringing our first half 2019 total return to 5.2%, up nearly $250 million. This compares favorably to second quarter 2018, where we were up 0.5% and flat year-to-date in 2018.

A year ago in the second quarter, we were speculating on how much more the Fed could raise rates. The U.S. 10-year hovered around 3%, the Treasury curve was flattening, and corporate spreads were widening. Fast-forward 12 months to second quarter 2019, the speculation was on when the Fed would cut, how much the Fed would cut, the U.S. 10-year was at 2% at the end of the quarter, and corporate spreads were well off their highs and getting closer to their tights, historically.

In the second quarter of this year, the financial market's generally higher, with the S&P up 4.3%. The corporate investment-grade bond market on a longer duration was up over 5%, and the U.S. 10-year Treasury made up most of that return, up 4.4%, ending the quarter right at 2%. Small-cap stocks in high-yield were up but to a lesser extent. Generally, the only red on my Bloomberg screen for the quarter was in oil-related stocks and the British pound sterling.

For Argo Group, our core bond portfolio was up 1.8% in the second quarter and 3.8% for the first 6 months of 2019. Our risk portfolio, which is a mix of equities, high-yield debt and alternatives, was up

3.3% for the second quarter and 12% year-to-date. Supporting this strong performance was our equity portfolio, up over 19% year-to-date and our high-yield credit portfolio, up over 8% year-to-date. Also driving returns were solid performances from our EM debt and our alternatives, which include hedge funds and PE structured funds.

Alternatives contributed $7.6 million to the increase in our net investment income quarter-over-quarter and $4.4 million to the increase in net investment income year-over-year. Interest and dividend income contributed $1.1 million quarter-over-quarter and $5.5 million year-over-year to the increase in net investment income.

As you probably know, the U.S. 10-year bond is much lower today, and corporate bond spreads are closer to their tights. So reinvesting our bond portfolio as maturities roll will be more challenging to grow interest income over the next few quarters.

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

Jay Stanley Bullock
Executive VP & CFO

Thanks, Mark, and good morning, everyone. I'll focus my comments today on some key highlights and explanations to the financials we reported last night, then we'll take your questions.

Commenting first on the top line, gross premium growth was strong in both the U.S. and international operations, contributing to 10% overall growth. I would point out that, on a net written and earned basis, our growth was more measured at around 3%. As we've talked about on recent calls, some of the risk management actions taken in our reinsurance purchasing and increasing our use of third-party capital resources has resulted in lower net retained premiums. We expect our net-to-gross premium retention will come in a few points less than 60% for the full year.

The loss ratio for 2019 second quarter was 66%, up from 58.8% in the prior year quarter. The loss results in the 2019 second quarter were impacted by a few items that I would like to spend some more time going through.

First, we reported $22.3 million of prior year reserve strengthening during the quarter. The adverse movements were related to various business units in our international operations. The largest impact was in our Bermuda casualty unit. This business provides large account casualty coverage to Fortune 1000 companies and other major public and private enterprises.

During the quarter, additional information became available on several individual claims, including reports of counsel and other specific information. And based on this, it became evident that certain losses would reach our attachment point, and we adjusted our reserves accordingly. As we've discussed in the past, we took action last year to modify, and in some cases remove certain geographies and classes from the Bermuda casualty business because we didn't like the risks. Utilities was one of these classes and contributed to the reserve strengthening in the quarter.

The balance of the prior year strengthening related to lines in London and Europe, where we had previously taken remedial action or exited certain lines of business and relationships altogether. The reserve development in international was primarily related to action at years 2017 and 2018. In our U.S. operations, we continued to experience modest favorable reserve development primarily related to our casualty business from accident years 2014 and prior.

Additionally, we reported higher current accident year losses in our international operations, primarily related to a large loss that impacted the energy market broadly as well as several other large property losses. Catastrophe losses were higher in the second quarter at 1.5 points on the loss ratio compared to 0.4 points in the prior year quarter and were mainly driven by U.S. weather, including losses related to flooding.

In terms of expenses, I would note that we recorded $7.5 million of costs related to the proxy solicitation process and related activities during the second quarter. We do not believe these expenses are representative of our ongoing business and have excluded them from the calculation of our expense ratio and adjusted operating earnings.

Overall our expense ratio of 37.4% was down 10 basis points year-over-year. And while our focus is on continued growth in underwriting income, we continue to pursue initiatives which we believe will drive further improvement to our expense ratio.

Touching on the U.S. operations for a moment, gross written premium rose by 10.6% to $454 million during the second quarter. Growth was achieved across our property, professional, specialty and liability lines and reflects the continued execution of growth initiatives and a positive rate environment. The margin picture in the U.S. was also positive in the quarter. The loss ratio as well as the current accident year ex-cat loss ratio both improved over the prior year quarter. All in, the U.S. reported a loss ratio of 57.4%.

The expense ratio in the U.S. was 32.3%, up modestly from 31.8% in the prior year quarter. The increase primarily reflects business mix as well as a one-time beneficial adjustment in the prior year quarter.
The bottom line in the U.S. was $29.4 million of underwriting income for the quarter, or an increase of approximately 11% from the second quarter of 2018.

In our international operations, gross written premium rose by 9.1% to $319 million compared to the 2018 second quarter. Growth was most pronounced in property lines and was partially offset by decreased writing in specialty lines, again positively impacted by the momentum in the rate environment.

I'd already spoke about the losses that impacted the international during the quarter. Overall, the loss ratio was 81.9%, up from 58.9% in the prior year quarter. And as Mark already touched on, we've already taken remedial action in our London and European business units and expect better loss results, going forward.

The expense ratio in international was 38.7%, up from 36.8% in the prior year quarter. The increase primarily related to an increase in acquisition costs, which are being addressed and, to a lesser extent, investments in technology to support our growth. International reported an underwriting loss of $21 million compared to underwriting income of $13.2 million in the second quarter of 2018, obviously not a result we're happy with, and we expect better performance, going forward.

Following on Mark Rose's comments on investments, our core portfolio continues to perform quite well, with net investment income growing nearly 29% in the second quarter. Alternatives, which are generally reported on a lag, contributed $9.5 million, representing a growth of over 80% year-over-year. The tax expense for the quarter was $800,000, which represents a 2.7% effective tax rate. The low effective tax rate primarily reflects the jurisdiction where income was earned during the quarter. This compares to the 15% that we used to calculate our adjusted operating earnings.

Finally, a couple of milestones to note on the balance sheet. Total assets passed the $10 billion mark for the first time, driven by the strong performance in the investment portfolio, and our shareholders equity closed at above $1.9 billion, up over $180 million in the first 6 months of 2019.
Operator, that concludes our prepared remarks, and we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Greg Peters of Raymond James.

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

I was going to focus 2 questions, one around the expense ratio and then your longer-term target of your 10% return on equity. On your expense ratio, it looked like it moved a little bit against you in U.S., and I think you called out in the international operations acquisition costs to support growth, yet the written premium was down year-over-year. So maybe you could provide some additional color around that. And then, give us some ideas of the leverage you have to pull, going forward, to get it lower.

Jay Stanley Bullock
Executive VP & CFO

Sure, Greg, let me answer that, start with the answer to that question, then I'll let Kevin jump in on the U.S. bit.

One of the things that we noted, there was a one-time benefit in the last year's quarter in the expense ratio in the U.S. Those numbers are really pretty comparable year-over-year. I don't know, Kevin, if you want to add anything else on the U.S. side.

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

No, a slight mix shift, and I think you mentioned earlier about last year we had benefit from a [seeding] commission that went through.

Jay Stanley Bullock
Executive VP & CFO

Yes. Remember, Greg, that the surety business is predominantly in the U.S., and that expense ratio runs significantly higher. That's one of the business units where we've seen the most growth.

In the international business, I would note that that business that has been -- much of which was canceled last year, continues to earn through this year. And so, the acquisition costs related to that are still being felt in the expense ratio. The growth that you saw in the international business was largely driven by property and professional, both benefiting from a very strong rate environment. So I understand drawing the connection between the two, but I would say that the growth and the expense ratio are kind of working with different drivers at the moment, and should come into line as the rest of the share next year plays out.

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

So the timing of this is more of a 2020 impact versus 2019 because of the run-off, correct?

Jay Stanley Bullock
Executive VP & CFO

Yes.

Mark Edmund Watson
President, CEO & Director

Well, and also, just as we're getting more rate across the board now, it's going to take a few more months for that to translate into earned premium or revenue, which then impacts the financial statement.

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

I can't help myself. On the reserve adjustment in the international, you called out the Bermuda casualty business where it hit your attachment points. Did you then book that to a full case reserve on that, or can you walk us through the mechanics?

Mark H. Rose
Chief Investment Officer & Senior VP

This is Mark. There were a couple of claims that, in the initial report that we received, we didn't think they would hit our layer, and information came up during the quarter that led us to conclude otherwise. And what's happened is -- I mean, look, this happens quite a bit, but it's unusual to have so many things happen in one time. And the last time that we saw a fair amount of activity in a short period of time I think was back in 2010 or '11. So it's been quite a while, which is why I was trying to make the point in my remarks earlier that, when you look at this portfolio over the course of time, the margins cumulatively have run about 10% from an underwriting perspective, which has generated pretty significant double-digit returns even with the changes we made to our loss reserves in the second quarter of this year.

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

Right. I just sort of paired that up with the rhetoric, or the pitch from the activists about the underperforming international operations. And I think your investors are just looking for the next step up in improvement in your outlook. And that I guess dovetails into the ROE observation. The operating ROE is down obviously because of what happened in the international operations. And you have the 10% for operating. Is this a 2020 target, or can you give us some sort of timeframe on where we'll see the step-up in improvement?

Mark Edmund Watson
President, CEO & Director

So I'll start, and then I'll let Jay jump in. But the other thing, back to Bermuda Insurance for a minute, I also made the point in our remarks earlier that this line of business is volatile, as well as our property cat business. And so, there are times when we're going to have an event, or series of events, in a short enough period of time that it's going to impact the quarter, which is why I keep trying to get us to focus on a longer period of time where, even inclusive of the actions taken in the second quarter, it still generates a significant return on invested capital.

As for when do I think we get to a 10% ROE? Well, on an annualized basis, we're there for the first half of this year. But in terms of thinking about it from an operating perspective, which is not necessarily how I think about it because I'm focused on total value creation, which includes the contribution from the investment portfolio, Jay, you jump in, but I think we've got a pretty clear line of sight for 2020 based upon what we see today.

Jay Stanley Bullock
Executive VP & CFO

Yes. Greg, I just would go back to some of the things that we put out and published earlier this year. We talked about how did we get to 10% [risk-free rate], plus 700 basis points. I would note that, as of yesterday, the risk-free rate was 1.75, but we often try to communicate in longer timeframes, and so 2 or 3 is probably a more reasonable number, but let's call it 10%.

And in order to get there, we needed a certain level of leverage on the platform. We had identified around $1.8 billion in premium. That feels like an achievable number for us. And the combined ratio of 93% was dependent upon getting the expenses down to around 36%, so -- the expense ratio.

So I would agree with Mark that we've got a pretty clear line of sight to be hitting that on a quarterly basis in 2020.

Mark Edmund Watson
President, CEO & Director

Absent volatility.

Jay Stanley Bullock
Executive VP & CFO

Absent volatility.

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

Just a final cleanup question. Given the volatility in the marketplace, in the stock market specifically, and interest rates, I'm wondering if we'll see some sort of step-back in investment income in the third quarter if this holds out for the balance of the quarter.

Mark H. Rose
Chief Investment Officer & Senior VP

Yes. Greg, you're trying to predict the day trading [effort] right now. I mean, in the last 10 days, we saw a significant drop in Treasury rates globally, and now we're starting -- in the last 3 days, we're seeing the spreads on corporate bonds widen out materially. So that could be a positive as we roll into new single-A and triple-B rated paper to pick up some yield because spreads have moved enough. But it's so unpredictable right now, so I would take a conservative view that it's going to be more challenging than the last 4 quarters today, but it's something to watch.

Jay Stanley Bullock
Executive VP & CFO

Yes. And the only thing that I would add, Greg -- this is Jay again -- is there is a difference in the environment today, and that is that the very short end of the curve is not zero, and it was a couple of years ago. And so that very short end of the curve, whether it's 3, 9, or a year and half or 2 years, has an impact on us, as well. So it depends on what happens to that is really what drives the outlook, immediate outlook, and outlook for the next 8 quarters.

Operator

Our next question comes from Christopher Campbell of KBW.

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

First question is I think you mentioned, Mark, in the opening script about Lloyd's rates being up 9.3%. What are you seeing in the U.S.?

Mark Edmund Watson
President, CEO & Director

Actually, I'll let Kevin handle that, and I'd also like Axel to talk a little bit more about what that is at Lloyd's. But Kevin, go first.

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

Yes, hi, Christopher. Across the U.S., we're seeing mid-single-digit rate increases. But specifically in a few areas, we're seeing solid double-digits, and those would be in the excess casualty, property, and professional liability areas, with some of our transportation-related businesses being closer to double-digits, as well. So across the board, we're seeing upward trend, and it's improved in the second quarter markedly over the first quarter.

Axel Schmidt

Group Chief Underwriting Officer

It's Axel from [indiscernible]. With regards to Lloyds, our Syndicate 1200, we are seeing the most rate increases in our property D&F book. Year-to-date, it's about 23%, 24% on top of what we had achieved going back to post-Harvey or Maria in 2017 and on top what we achieved [of our] 20% 2018. So we are really getting very, very close to the rate adequacy we need to have. However, we're also writing D&F property business on Lloyd's [paper] out of Bermuda. There we see even more -- even steeper rate increases, particularly driven by the [indiscernible] capacity from important carriers.

With regards to our management liability in London, that follows what Kevin described what we see in the U.S. It's not that much yet, but we are also achieving double-digit rate increases in management liability in our Syndicate 1200 book.

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

And then just a question dovetailing on one of Greg's questions about one of the activist proposals was to exit the international segment. I guess just how should we think about that as investors? If we think of Argo's U.S. peers, they tend to trade at higher multiples than the Lloyd's and than the Bermudian peers, so there would be a benefit there. I guess just how should we think about what could the ROEs look like if there was an international sale? And what would be the benefits and costs in terms of thinking about that?

Mark Edmund Watson
President, CEO & Director

I think that when we look at our organization today, it looks very similar to most of our U.S. peers who also have significant operations in London for sure, and to a lesser extent perhaps Bermuda or other parts of the world. When I look at our business today by line of business, which is how we run it, we're agnostic to geography and more focused on where can we get the right rate of return.

Having said that, there are parts of our business that we're always looking at for improvement, whether that's in the U.S. or outside the U.S. If you think back to our earnings calls over the last couple of years, we've spent as much time talking about remediating or shutting down lines of business in the U.S. as we have in international. So that's how we think about it. Axel, do you want to add anything?

Axel Schmidt
Group Chief Underwriting Officer

Yes, in terms of what Mark mentioned, on the last 12 months, you've exited 10 products, respective lines of business, largely in international for the reasons Mark and Jay alluded to earlier. But you've also re-underwritten products that we believe now going forward not just because of market changes but also because of us setting ourselves up differently and [reviewed] our underwriting strategies up. That's going to be profitable, including our business in international. So therefore, we projected the terms in line with expectations.

Mark Edmund Watson
President, CEO & Director

The other thing that I would add, Chris is where we operate has different cost structures. And in parts of the world where we see the transaction costs going up, either because of the platform we're on or commission expense, we're taking a hard look at how much exposure we really want to that platform.

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

And then, what are the ROEs by each [end] segment currently? And then where do you think they can be?

Mark Edmund Watson
President, CEO & Director

So I'm just going to say that our goal is a double-digit ROE for all the businesses that we're in. The majority of them are performing at that now, and that's what we're focused on.

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

And then Voce also had some other ideas to improve ROEs like they said, like a runoff sale, corporate restructuring, investment expenses. What are your thoughts on potentially adopting some of those ideas, as well?

Mark Edmund Watson
President, CEO & Director

Well, I think we mentioned a couple of quarters ago that we've entertained looking at a sale of the runoff book for, oh gosh -- well, we've been looking at it off and on for 20 years, and that we had entered into a review of that at the end of last year, and I'll just say that those discussions are ongoing.

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

Just one last one on the shares have pulled back a little bit since their highs. So how are you guys thinking about repurchases?

Mark Edmund Watson
President, CEO & Director

Well, look, if you look at how we think about shareholder repatriation, or the repatriation of capital in general, over the last 8 years, our GAAP equity has gone from I think $1.5 billion to $1.9 billion, and we've given back, through either dividends or share repurchases, over $650 million. And I would point out that we significantly increased our dividend again at the end of the fourth quarter.

So, look, I think we're always focused on how we can maximize capital, or the utilization of capital. That's an important lever. I frequently talk about the levers of how to grow book value per share. The first is underwriting income, the second is total return on the investment portfolio, and the third is how effectively we manage capital. To the extent that we believe that we have excess capital that we don't need for our core underwriting business with our share price down, I think we have to keep thinking about that.

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

Yes, I just wanted to make sure that there was no change in the philosophy just because you guys haven't bought back in the last 2 quarters.

Mark Edmund Watson
President, CEO & Director

No, there's no change in the philosophy of how we think about capital, but I would say that, given that our share price is trading above book, that we have suggested I think previously that perhaps increasing our use of dividends as a way to repatriate capital might be more effective to our shareholders than a share buyback. So I don't mean to exclude that, Chris, but rather to say there is a range of things that we can do, and we're still open to looking at all of them.

Operator

[Operator Instructions] The next question comes from Jeff Schmitt of William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Looking at the professional liability book, it looks like it drove a lot of the growth in the U.S., maybe not quite half. [Growth was 35%]. I know you had mentioned rate increases there were in the double-digits.

How far into the double-digits are we talking there? And can you maybe discuss what you're seeing in that market and why there's that opportunity?

Mark Edmund Watson
President, CEO & Director

Yes. Let me start, and then I'll let Kevin jump in. It's not just about rate increase. It's about how we face the market and how we structure our products today and what our expectations are in the future. Kevin?

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

Yes, it's really been driven by the management professional liability book, and there's some market conditions that are different where a year ago people were offering $50 million limits. They're down to $10 million now, which is opening up a lot of opportunities that didn't exist before to participate on programs. A lot of the digital work we've done is allowing us to respond quicker. And in management professional liability, the price increases have been strong, very strong double-digits, especially in this quarter.

Mark Edmund Watson
President, CEO & Director

Yes. And to just go back to Argo Digital for a minute, I think we talked about this on the last quarter, that we now have built a predictive analytic tool that's really helping us figure out, one, which risk to write or not write at all; second, what layer we want to participate on a program and what we believe the right price is for that. So I think we have much more underwriting precision today than we did a year ago, and that's giving us a lot more comfort as these market opportunities that Kevin just mentioned come up.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Are the rate increases -- are you seeing competitors facing loss pressures there? You're not really seeing that. I mean, you're able to, sort of through technology, have better risk selection there, but you're not seeing any issues on the loss front?

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

No. Across the board, the industry is seeing losses increase, and that's part of the reason that there's a pull-back on limit sizes being put out by all carriers, the increases in rates, the increases in retentions, which are happening across the board in management professional liability.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Could you discuss growth of the E&S book specifically, what you're seeing there just given pullbacks by AIG, by Lloyd's? What's the growth levels there in the profitability of that book?

Kevin James Rehnberg
President of Americas & Chief Administrative Officer

Sure. It's Kevin again answering. What we've seen is pretty much continuation of what we have seen in the past. It's still over 10% in terms of the increase in submission activity. But our appetites are very clearly defined, so if it fits the boxes we've had, we're happy to see it. There's a lot of stuff that moves in and out of the E&S market, and we may not be competing on all of that, but we've seen a continual growth in the flow of submission activity and a slight improvement of the quality that's allowed us to continue to quote and grow in that area.

Operator

The next question comes from Bob Farnham of Boenning & Scattergood.

Robert Edward Farnam

Boenning and Scattergood, Inc., Research Division

I had a quick question on the current year large losses. I know, Jay, you mentioned about the energy piece, but I wanted to know if there's any commonality in the large property losses, kind of what was behind those.

Axel Schmidt
Group Chief Underwriting Officer

What has happened particularly with regards to our Lloyd's business was issues with the attritional loss pick versus actual. We have taken remedial actions, but that was really the only common denominator.

Jay Stanley Bullock
Executive VP & CFO

Yes. There were some large losses, discreet large property losses that happened to hit the European business. There didn't seem to be a commonality there other than we were on the wrong risks. The largest loss, accounting for more than half of the $10 million we reported, was a big energy loss that affected a lot of markets in the U.S. So it was felt across the market. So that wasn't common to anything either.

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

Is this something -- I mean, the large losses like that, is that something that happens every quarter, or just happened to be that you had maybe more than a couple that was notable enough that you had to kind of disclose that? Or is this just something like ?

Jay Stanley Bullock
Executive VP & CFO

Yes. It was a spike in frequency, Bob, and I've had this conversation internally a lot, because you think about you have these large losses, and how many are you going to have in a year, and the answer is 1.2. Well, you never have 1.2. You have zero, or you have 3. So this was a time when we had 4. And so, when it hits in a quarter like that, there's not IVNR from a prior quarter. We're not going to go borrow IVNR from a future quarter. It's just bad stuff happened in that particular quarter.

Operator

This concludes our question-and-answer session. At this time, I'd like to turn the conference back over to Mark Watson for any closing remarks.

Mark Edmund Watson
President, CEO & Director

I'd like to thank everyone for joining us on the call today. There's been a lot of activity during the quarter, and I think we're off to a good start for the third quarter. We'll see what happens with the capital markets. And I look forward to speaking to everyone in November at the end of the third quarter.

Thank you very much for your time again, and Operator, this concludes our call.

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