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Argo Group International Holdings, Ltd. NYSE:ARGO

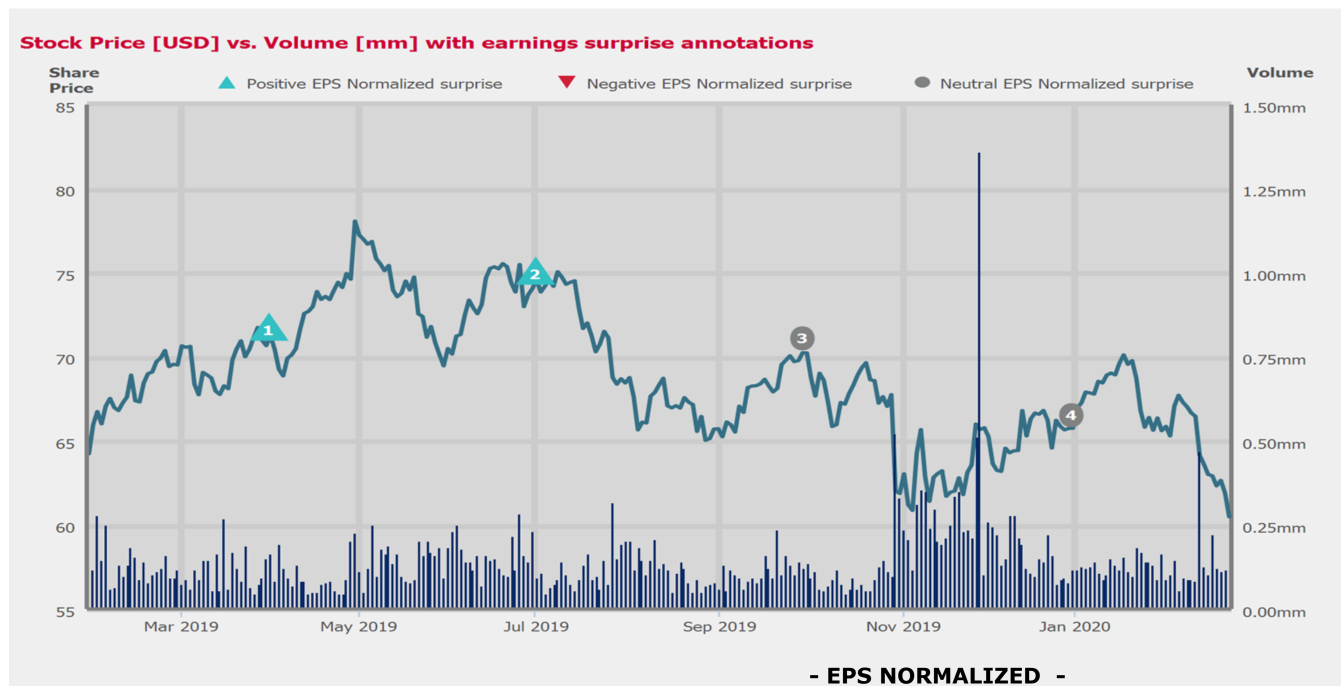
FQ4 2019 Earnings Call Transcripts

Tuesday, February 25, 2020 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(2.16)	(2.15)	NM	0.63	(0.93)	(0.90)
Revenue (mm)	480.63	484.50	▲0.81	544.50	1965.83	1969.70

Currency: USD
Consensus as of Feb-18-2020 5:30 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.03	1.18	▲14.56 %
FQ2 2019	0.43	0.48	▲11.63 %
FQ3 2019	(0.39)	(0.44)	NM
FQ4 2019	(2.16)	(2.15)	NM

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Presentation

Operator

Good day, and welcome to the Argo Group 2019 Fourth Quarter Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Brett Shirreffs. Please go ahead.

Brett Shirreffs
Head of Investor Relations

Thank you, and good morning. Welcome to Argo Group's Conference Call for the Fourth Quarter of 2019. After the market closed last night, we issued a press release on our earnings, which is available in the Investors section of our website at www.argolimited.com. Presenting on today's call is Kevin Rehnberg, Chief Executive Officer; and Jay Bullock, Chief Financial Officer. 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 risks and uncertainties surrounding future expectations, generally, and may materially differ from actual future results involving any one or more of such statements. Argo Group undertakes no obligation to publicly update forward-looking statements as a result of events or developments subsequent to this call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC.

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

Kevin James Rehnberg
Chief Executive Officer

Good morning, and thank you for the introduction, Brett. Welcome to everyone on the call. On today's call, I will review some operating highlights from the quarter, including our views on the current environment, then Jay will take you through the numbers of the quarter, and I will close by sharing some takeaways from my first quarter as CEO and our plans for the future before we open it up for Q&A.

The pricing environment continues to strengthen, core product volumes are strong, and many business units have made a very positive turn into 2020. But at the same time, we had substantial reserve strengthening in the quarter and full year, most notably for some of our international businesses. We recognized a group of specific claims and worked diligently to capture any movement in loss trends. Jay will share additional perspective in his remarks. Overall, investment results were good for the quarter and full year, and our capital position remains strong.

Since being appointed interim CEO, I have been fully engaged with my teammates in reviewing operations and setting our game plan for 2020 and beyond. It's a work in progress, and it's a positive story. I'm thankful to the Argo team and to our producers and insurance clients for their collective support. The central message is that we have some excellent assets and a valuable competitive position in the Specialty commercial insurance and reinsurance arenas. And we're going to leverage our platforms to deliver on our financial objectives for our shareholders.

So let's first cover some key points for the recent period. After we talk through the closing period of 2019, I want to come back and share some observations on the Argo enterprise and our priorities. Quarter 4 continued many of the results we saw earlier in 2019, both positive and negative.

In the U.S. segment, we achieved the highest fourth quarter gross written premium in Argo's history and the third highest quarter overall ever. Premiums were up 9% in the quarter and 10% for the full year, and we continue to see good growth opportunities in the market for most of our businesses. While our U.S. underwriting results for the quarter were disappointing, for the full year, our U.S. operations had a combined ratio below 95%, including the actions taken in the fourth quarter. We believe the current environment and our capabilities provide us the opportunity to continue to grow profitably.

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To be clear, we're an underwriting company first, and we will apply increased discipline and accountability across our organization to drive profitability. So this is not just a top line story. Back on the recent period, most of our major business units in the U.S. experienced accelerating rate increase during the fourth quarter. And on average, rates were up in the mid- to high single digits across the U.S. segment. I would highlight Professional and Property lines as both approaching 20%. Submission growth is also a positive story. In the fourth quarter, submissions were up nearly 20% from the prior year in our core growth businesses, and this momentum has continued into 2020 with that growth rate holding steady through January.

Turning to the International segment. While we are clearly disappointed with the continuing impact of prior year development on the bottom line, we do see encouraging signs in a number of business lines. We're applying the same fundamental strategy and process that has worked so well in the U.S. to the operations across our International business. Gross written premiums in International declined in the fourth quarter and were roughly flat for the full year. This result reflects the remedial actions we have been taking in several business units as well as in refining our risk appetite.

Balancing that out are very strong rate increases in several business lines, including Property, Liability and Marine. Overall rate increases across International continued to accelerate and averaged in the mid-teens for the quarter. While we are disappointed with our results for the quarter and the full year 2019, I'm optimistic about our future and our ability to capitalize on opportunities in the market.

I will now turn the call over to Jay to discuss our results for the quarter in more detail, then I will be back to share some thoughts on my first quarter as CEO and plans for the future before we open it up for Q&A.

Jay Stanley Bullock
Executive VP & CFO

Thanks, Kevin. As most of you already know, 2 weeks ago, we preannounced certain items related to our fourth quarter earnings. As a result, I'll focus my comments today on providing more detail on the reserve actions taken and other key items impacting our financial results for the quarter.

In the fourth quarter, U.S. gross premiums were up 9%. Our growth was driven by positive rate trends and strategic growth initiatives with strength in Professional, Liability and Specialty lines. However, our net written and net earned premium growth during the quarter in the U.S. was muted. This was largely a result of additional reinsurance purchases and a onetime ceded premium adjustment that negatively impacted net premiums.

The adjustment relates to updates to the amounts due to certain third-party reinsurers, along with estimated loss recoveries and commissions due from reinsurers related to initial premium estimates, a portion of which relates to 2018 balances, notwithstanding the quarterly adjustment, which modestly reduced the net retention ratio. Going forward, we expect net-to-gross written and earned premium ratios in the 60% range. Excluding the adjustment, earned premiums in our U.S. operations would have been up 8%.

On the International side, our gross premiums were down 10% in the quarter and roughly flat for the year. This was largely a reflection of planned reductions in certain lines of business. As Kevin mentioned in his remarks, we are getting significant rate in certain business lines within International. And despite the movement in top line, we expect a smaller but more profitable book going forward.

Fourth quarter underwriting results included reserve strengthening of $76.5 million or 17.9 points on the loss ratio, with development coming from International, U.S. and Run-off segments. We, like many in the industry, have experienced changes in the loss environment. We believe the reserve actions we've taken during 2019 have captured the changes in the environment that we've seen today.

We conduct reserve reviews of all ongoing businesses each quarter. Our reserving process has not changed and includes a feedback loop between reserving, underwriting, claims and reinsurance operations that enhances our ability to react quickly to the findings of the reserve reviews. We book our reserves to best estimates. And we believe that we have reflected the negative trends that have impacted our book over the last several quarters. Much of the recent reserve development has been a result of new

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information received relating to claims trends across various lines of business as well as rising claims severity that has been noted by several companies in the industry.

We also continue to review our International business, currently in Run-off, which has resulted in additional strengthening. In International, reserve increases were related to our Syndicate 1200, Bermuda insurance and European business units. At Syndicate 1200, reserve increases were primarily in Liability and Marine lines and totaled $21.4 million. Included in that number are certain large losses and increased attritional losses on a program that was canceled early last year.

Bermuda insurance development was the other large contributor at $19.4 million and was primarily due to new information on a few casualty claims and recent court settlements that have, in our opinion, resulted in a need to adjust reserve for these claims. In addition, a smaller portion of the movement was the result of adjustments in the Professional book on accident years 2014 and 2017.

Reserve development in our European business units was related to a few specific Professional lines claims and incurred Liability losses coming in higher than expected. In the U.S., reserve strengthening was primarily related to Liability, Property and Professional lines. Liability development resulted from actual losses coming in greater than expected on accident years 2013 through 2017. This Liability business was related to the monoline casualty cover we write in our contract-binding business unit and led to development of $24.3 million.

Two things to note. Much of the claims activity which drove for the need for this action is in certain contractors business we no longer write. And during the quarter, we brought back in-house the claims management on this business, which we believe led to an increase in the level of paid and incurred activity. That said, we will continue to monitor this business closely.

Property development was due to an increase on prior year catastrophe losses from 2017 and 2018 events. Professional lines had modest development related to movements on individual claims. Offsetting these were smaller favorable movements in other Liability business and in our Surety business. Prior year losses also include the conclusion of Argo's annual review of runoff reserves, which resulted in a $10 million reserve increase primarily related to asbestos and environmental exposures. We have commented on the process around a solution for the Run-off business on prior calls. This continues to be a work in process.

In addition, during the fourth quarter, we reported higher current accident year losses, excluding catastrophes, of approximately $30 million. The higher current accident year loss ratio impacted both the U.S. and International segments. In the U.S., the adjustment related to small movements in a number of units, including Public Entity, Professional Liability and Property, and in some cases, were specific to certain large losses. The increase in the current accident year in the International operations was driven by increases to large and attritional losses across most divisions in Syndicate 1200 and the increases in Bermuda Casualty in Europe due to a reassessment of the current loss ratio given the experience on prior years.

All-in, our current accident year ex cat loss ratio was up 2.8 points from the prior year during 2019. We believe that the combination of current rate increases and remedial underwriting actions taken will lead us to stronger underwriting margins going forward. In other words, we believe a portion of the 2.8 point increase has been moderated.

Our reported expense ratio in the quarter was 42.3%. This reflected a number of items that impacted both expenses and premiums, which drove the ratio higher. As I mentioned previously, earned premiums were impacted by ceded premium adjustments of $22 million for the quarter. On the expense side, we had additional costs associated with a reduction in workforce, an allowance for doubtful accounts related to our European business unit and adjustments to underwriting expenses based on certain costs previously allocated to investment functions and trade capital providers. Together, these expenses represented over $10 million of nonrecurring items in the quarter. The combination of the previously mentioned premium adjustment and expense items negatively impacted our consolidated expense ratio by approximately 400 basis points during the quarter and 100 basis points for the full year.

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Turning to investments. Our portfolio continues to perform well with net investment income up 16% during the fourth quarter and 13.5% for the year. In the quarter, the portfolio returned a positive 1.1%, and year-to-date total was 6.9%. This compares favorably to 2018 when we were down negative 0.6% for the year. During the fourth quarter and into the new year, we have moderately reduced our exposure to risk assets. This change in strategy reflects our desire to simplify our investment portfolio and allows us to deploy more of our capital to the underwriting business at a time when we think that the opportunity is as good as it has been in years. This shift in approach could be a slight headwind to overall investment income and returns going forward, depending on conditions in the investment markets.

I will now turn the call back to Kevin to share some thoughts on our business going forward.

Kevin James Rehnberg
Chief Executive Officer

Thanks, Jay. Over the past few months, I've taken time to assess Argo as a whole and, with the executive team and our Board, have been conducting a broad review of all of our operations with a sharp focus on overall profitability and positioning Argo for the future. The last few months have included a great deal of activity at Argo, and I want to recognize and thank everyone in the organization for the energy and speed with which they have adapted to the change in leadership. Our employees have been resilient through the transition while maintaining and expanding key relationships with our customers and producers.

As a specialty underwriter, we provide solutions to customers that value our underwriting claims and risk management expertise. Generally, these coverages are not afforded by middle market and small commercial carriers. This provides an opportunity for better returns for specialty insurers and for Argo. We have built a solid foundation as a U.S.-centric specialty insurer with deep expertise and a reputation for both service and value. We are and will continue to focus on U.S.-domiciled risks. This represents 80% of our premium today, regardless of it being underwritten in the U.S. or international markets. And it's where we expect to find most of our opportunities going forward. We know this market, that is our strength, and it'll continue to be our focus.

Our current businesses still have plenty of runway for growth. There are also many segments of the market that we don't yet serve. Both of those factors represent untapped growth potential for the future. We're studying and will consider entering certain markets such as health care, ocean marine and technology, to name a few. However, we will approach the new markets and the products with discipline and a focus purely on returns. We must attract the right talent and have conviction that we can generate an adequate return in a 3- to 5-year time period.

This is the same urgency and results-oriented focus that has led to the success of our U.S. segment. In the U.S., we have constantly been evaluating returns and opportunity in all business units. Since 2012, our U.S. operations have exited or rationalized approximately $650 million in premium, while nearly doubling in size and keeping overall staffing levels flat during the same period. This focused approach has allowed our strongest U.S. business units to receive additional resources for growth, which has resulted in 11% compound growth rate since 2013 and helped us to achieve 91% combined ratio over the same period.

Those are very compelling numbers, and I'm optimistic we can apply the same principles across the organization. Our primary objective is to offer competitive products and services for our customers and earn an adequate return on capital for shareholders. We're not there today. And it will take some time to achieve that goal, but I believe that we have the foundation in place and a plan to improve our returns across the group over time. I'll have more to say about this throughout the year, understanding we need to deliver near- and long-term improvement. For 2020, we anticipate a combined ratio of between 96% and 98%.

Our enterprise today is a specially focused reinsurer and insurer. Underwriting and claims excellence are the core of our DNA and will continue to be what sets us apart as an organization. That foundation will not change under my leadership. As I mentioned, we have many attractive businesses today that have been achieving returns in excess of our target. Unfortunately, we also have businesses that have not performed at an acceptable level. There's far too much capital and too many resources tied up in these

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underperforming businesses, and we will execute with timely decision-making to repair or reduce the size of underperforming or noncore businesses. Some of this is already underway.

Going forward, I expect the organization to be more focused and efficient. Every decision, large or small, that we make will have our financial objectives in view To achieve it, we will apply a theme of simplify, reduce and eliminate across all operations. We have already taken swift action in a short period of time to adopt these principles. And over the last few months, we have exited underwriting operations in Asia and most of the hull business within Syndicate 1200. We've discontinued regional underwriting operations in Latin America. We've sold corporate aircraft and put certain corporate real estate up for sale and canceled marketing and sponsorship contracts.

We also announced an agreement to sell Trident Public Risk Solutions. Trident is a good business for us, but it's a better business for our partner and together provides better growth opportunities for both of us. We estimate that these actions as well as other expense-related decisions in the last few months will reduce our nonunderwriting-related expenses by approximately 10% or $20 million. To clarify, it is not underwriting claims or the operations supporting both of them that we're addressing there. And this is just the first step in the journey to achieve better returns that will help simplify our organization, reduce noncore businesses that were detracting from our overall performance and eliminate some expenses from our organization.

We've also begun to -- a plan to deploy our capital more effectively. As Jay mentioned, during the quarter, we reduced our exposure to equities and high-yield securities in our investment portfolio. We will shift our strategy to simplify our investment portfolio mix, which will reduce investment expenses and resources. It will also allow us to deploy incremental capital to our underwriting activities, where we see the best returns and an opportunity to grow.

We'll have more actions to report on in future calls as we continue our review of our operations. But this is in no way means that we are not focused on growth. I believe Argo is a growth company and has significant opportunity to pursue growth primarily in U.S. markets. We operate in a competitive environment. And as I know you appreciate, we will continue to report to you on what we have accomplished and what our data is telling us rather than broadcast our strategies. Some of the identified savings will be invested back into the business to enable our growth and make us a more efficient organization. That's the best way we can drive growth and deliver an appropriate return on equity for our shareholders over the long term.
Operator, we can now open the line for questions.

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Question and Answer

Operator

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

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

A lot of comments to unpack. I'm going to focus on 3 areas: your top line, your combined ratio guidance and investment income. Lots of moving pieces around your top line. You specifically called out businesses that are being discontinued or are discontinued. And then, at the same time, we're hearing of growth opportunities. Can you give us an idea of what you expect the top line to look at -- look like for the full year '20 in the context of how it looked for the full year 2019?

Kevin James Rehnberg
Chief Executive Officer

Yes. So let me just address the first part of that question, first, which is that we did get out of some businesses. They tend -- the ones we've exited so far have been smaller. Trident, as I've spoken to some people about earlier, has been -- is a business that, while we have a strong franchise there, we have growth opportunities when it's operating as an MGA that we didn't have and we have a new partner that has new opportunities for us. So -- but the overall growth for the top line is...

Jay Stanley Bullock
Executive VP & CFO

Yes, look, I think, Greg, when you factor in the large business units in the U.S., like Professional Liability, Surety, Construction, I think we expect the top line will continue to show positive growth. My comment about the International business, a smaller but more profitable business, that's not a dramatic reduction in that business. A lot of the actions that you've seen that we've taken to rightsize that business are already flowing through the top line in 2019. So I would expect further growth in the U.S., and I would expect kind of a flat outcome internationally.

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

Thanks for that perspective. It's excellent. And then on the second segment of questions or question would be around the combined ratio, so you said about 100 basis points -- the nonrecurring charges accounted for about 100 basis points in your consolidated expense ratio for the full year 2019. So should I infer from those comments that your expense ratio on a consolidated basis improved by approximately 30 basis points or -- you reported 38.5%. And so then take away the 100 basis points at 37.5% versus 37.8% last year. And how should I think about that in the context of all these moving nonrecurring charges for 2020?

Jay Stanley Bullock
Executive VP & CFO

That would be the math, and that would be the outcome of that math. And I think it's not an unusual -- I'm sorry, I don't think it's not an unreasonable extrapolation to where we expect that particular ratio to be in 2020. If -- so I'm trying to answer your question directly, but I'm not sure I did.

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

Yes, I guess it's 37 -- you're saying 37.5% but I would -- is it -- well, all right, I'll leave it at that. Is there -- in your 96% to 98%, is there a cat load assumption that you're building in there?

Jay Stanley Bullock

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Executive VP & CFO

There is. It's not that dramatically different than it's been in the last couple of years.

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

Okay. So just use an average over the last 3 or 4 years?

Jay Stanley Bullock
Executive VP & CFO

Yes. I mean, yes. Last year was -- I think some of the actions that we took post '17 and '18 showed up in '19. Of course, it was -- there were lower cat activity industry-wide. But I think if you look back at the average of some of those years, certainly not '17, I wouldn't extrapolate from that, but probably the average of '18 and '19 would be a reasonable place.

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

All right, great. And now the final piece on the investment income, so you're moving out of some of the areas and sort of repositioning the portfolio. Some of the areas that you're pulling out of had positive returns on investment income. So I guess what I'm looking for is some perspective on what you think investment income is going to look like for the full year '20 because if you're pulling out of some areas that had a positive effect on 2019, that might suggest a lower investment income result for 2020.

Jay Stanley Bullock
Executive VP & CFO

It might. That one's a really hard one to predict. I think, yesterday, as I was watching markets move and saw the 10-year back down, I think it was a step back down below 130 or something yesterday, it was 140, but [silly me], it makes it very difficult to predict. Bear in mind that some of the shift might actually have -- all things being equal, and all things aren't equal, some of the shift where we reduced some risk assets, sold some equities that would be reinvested in income-producing, those equities would have been showing up as -- through the realized gains and losses. That said, overall, the rate environment is still extremely anemic. So I don't see a lot of growth in investment income in 2020.

Operator

[Operator Instructions] The next question is from Jeff Schmitt from William Blair Company.

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

Question on the International book, obviously, a ton of change going on there. But I guess, just broadly, do you feel the issues there were really more related to limit than price? And can you maybe just kind of just broadly discuss your limit profile there and if there's changes that you're making to that?

Kevin James Rehnberg
Chief Executive Officer

Yes. Jeff, it's Kevin. We have, really, 7 or 8 different segments within International. And the only place that the limit profiles were large were in the Bermuda insurance book and in some of the Property businesses. And all of those have been -- like many in the market, we've been reducing our exposures on the Property on a PML basis on a -- on the excess Casualty and on the Professional lines on a straight-up limit basis. We've reduced the offering size as well as what the in-force totals are as well as getting rate. So there's a lot of reunderwriting going on. Where the claims have come out at out of the excess casualty market, those were large limits. But a lot of the stuff that came out of Europe or 1200 were smaller accounts that were just a volume situation, and reunderwriting address those. So it's a bit of everything across the board.

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

Okay. Okay. And then a follow-up on expenses. And it seems like the onetime items, the downsizing and such, were related to the International. I guess I was surprised to see the U.S. expense ratio flat after it dropped so much in '18. A lot of the discussion of the changes that you're going to make, have they been put on hold? Or should we expect to see that to continue declining on 2020?

Kevin James Rehnberg
Chief Executive Officer

Yes. So I had a discussion with the Board over the summer about what we were doing on the U.S. expense ratio,[while]we're still running the U.S., and I was happy where it was because the returns we had were good. And I wanted to keep investing in the technology platforms for the business and in terms of the resources that were available to hire in for some of our growth businesses and some leadership positions. So I'm fine with that where it is. It's the areas that we're not performing well in that we want to make sure we really address and areas where we have duplication. Some of those still do exist in the U.S. We're a mosaic of acquisitions, and sometimes they haven't been completely integrated. It's more acute outside the U.S. than it is inside. But we can take some of the opportunities to use those learnings across the organization.

Jay Stanley Bullock
Executive VP & CFO

Yes. The only other thing I would add is, as you think about the U.S. business, a couple of things that have been influencing that in the last 18 to 24 months: strong growth in the Surety unit and, perhaps a surprise from where we were a couple of years ago, pretty good growth in Rockwood. And those 2 business units have, just by nature of their design, a higher expense ratio. So all things being equal, that you get more margin, but you have a little bit higher expense ratio.

Operator

The next question is a follow-up question from Greg Peters from Raymond James.

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

So let's circle back on the reserve charges and your commentary about some of the runoff. Can you give us an idea of what the outstanding claim inventory looks like on -- in the areas where you've discontinued businesses, especially on the International side, just to give us a sense that we're making progress and there is positive light at the end of the tunnel?

Jay Stanley Bullock
Executive VP & CFO

Yes. Greg, I don't have that claim inventory on those businesses at my fingertips. But we've been out of those businesses long enough. And when we saw the increased information, the increased reported claims really started in the second half of -- well, in the fourth quarter of '18 and into '19, which led us in -- during '18 and early '19 to cancel many of those programs. So I don't think -- I don't have the claim count handy, but I think things have leveled off. And I'm not expecting that -- I'm not expecting a large increase in claims there.

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

I guess what I'm -- let's come at it a different way. So -- and I appreciate the fact that you're not going to have some of the detail in front of you. You said the reserve process really hasn't changed. And so in the 3 -- the last 3 quarters, you've taken reserve charges for -- in some current business and also from some business that's been discontinued. At what point do you look at the fact that you're not staying in

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front of the reserve development and say we got to change the process so we get to that point where we no longer have this adverse prior year development or prior -- current year development?

Jay Stanley Bullock
Executive VP & CFO

Well, when I say that the process hasn't changed, I mean, sort of fundamentally, the structure of the reviews that we do and who's involved and so on and so forth as well as the actuarial methods that we used. That said, a lot of -- a lot -- some of what you see in the fourth quarter is an extrapolation of that data that we might have thought in the second quarter was not a permanent change in pattern.

And so, for example, in Syndicate 1200, that number is larger in part because we have now extrapolated and assume that the tail, if you will, on certain of those businesses is in fact longer than we thought it was going to be. Good news is some of that -- that's mostly business that we've reunderwritten some time ago. But that gets reflected into the number, which then increases the size of the number. So I don't want to suggest that we're not changing the approach. We're just not changing the processes and the methodologies.

The other thing I would say, and perhaps I'm as frustrated as anybody, and that is we really have been getting additional information each quarter that has surprised us. Syndicate 1200 is perhaps the best example of that. When we looked at the data in the first quarter of this year, we were sort of spot on where we thought we would be. And that's gotten incrementally worse. That's not unusual. In the past, it's unusual, but it's not inconsistent with what other people in the market in London have been experiencing.

I can't really explain that in great detail as to why it would be happening that way. But that is what we've seen. And so we're reacting live as the information that comes in. And on certain circumstances, for example, where we took action in the U.S., we think that part of that is -- I'm going to use the term self-inflicted, but meaning it was our own. Now we got our hands on the claims in that contract book, deciding that we needed to put up reserves perhaps a bit more robustly and perhaps pay some claims, so the paid was increased as well. That led us to react in that particular business line. So we're -- I think we're reacting in a timely fashion to the information as we receive it.

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

Two other questions, one is going to be the U.S. operations, and then I'll just close out with a question on the perks and that ongoing review. First, on the U.S. operations, as we look through the press release and the announcement and some of your shareholders and talk with some of your shareholders. There was some concern with the higher accident year combined ratio on a year-over-year basis, going from 90% to 95.4%. When I think about sudden jumps like that, I have a tendency to revert back to just the full year number, which is only 90 basis points higher. How should we be thinking about that calendar -- the current accident year combined ratio, especially in light of what happened in the fourth quarter?

Jay Stanley Bullock
Executive VP & CFO

Well, I think we already addressed -- I hope we did, I'm happy to talk about it again. But I think we addressed the expense side of the equation. So if I go back to the current accident year noncat loss ratio, and as I said in my remarks, up 2.8 points over -- for the year. And I think that's really the way to look at it because there's enough moving parts in any given quarter that it's hard to extrapolate that quarter.

But we think that -- and then I would refer back to Kevin's comments, almost 20% in some really big businesses for us in terms of rate increase. And then a lot of underwriting action that's been ongoing, not just in the last 90 days, but for the last 18 months. So we think a portion of that 2.8 will have been recovered, if you will, or will have been moderated by rating and by underwriting. So put those 2 together, you kind of -- or back to -- and I think answering your question of where the current accident year combined ratio should be. I don't think you should take Q4, nor do I think you should take 2019 as the starting point for 2020 on the current accident year noncat loss ratio.

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

Got it. Final question for you would be the ongoing review of [annual] perks, compensation, et cetera. I believe the SEC is involved. Obviously, you're not going to announce something today, but maybe you can give us a sense of how that process is evolving? Are we closer to the finish? Or any comments on that would be appreciated.

Kevin James Rehnberg
Chief Executive Officer

Yes. It's -- the investigation is ongoing, and we are fully cooperating. And that's all I can say at this point. I mean, are we closer to the finish? Yes, closer than we were 6 months ago. But the time frame is not ours to decide.

Jay Stanley Bullock
Executive VP & CFO

We will have our filing -- sorry, I was just going to say, Greg, we will be filing our proxy in the next couple of weeks. And I think you'll be able to gather some additional information, I would think, from that.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Kevin Rehnberg for any closing remarks.

Kevin James Rehnberg
Chief Executive Officer

Thank you. I'd like to thank everybody who participated on the call, those that'll listen later, those who were asking questions and to all our shareholders, employees, customers, partners and producers for your continued support and ideas. So we'll look forward to talk to you on the next call. Thanks.

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

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