S&P Global
Market Intelligence

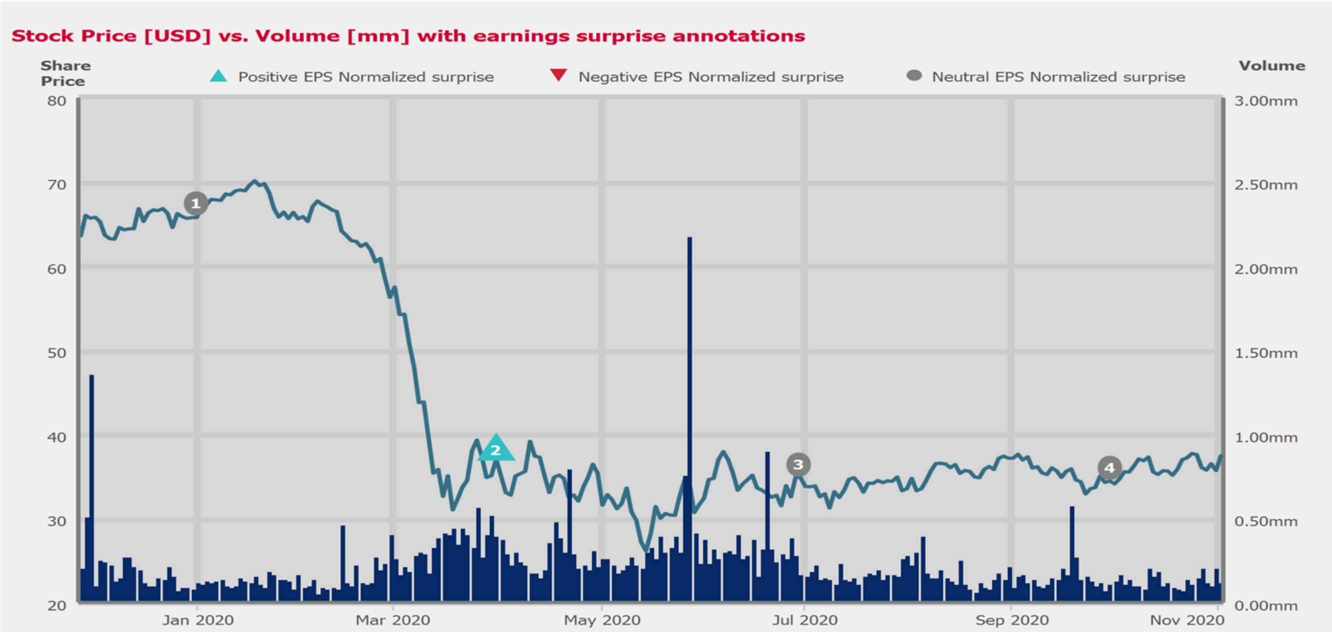
Argo Group International Holdings, Ltd.
NYSE:ARGO
FQ3 2020 Earnings Call Transcripts

Tuesday, November 03, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.49)	(0.34)	NM	0.45	0.06	NA
Revenue (mm)	481.74	483.50	▲0.37	496.56	1871.80	NA

Currency: USD
Consensus as of Oct-26-2020 1:30 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	(2.16)	(2.15)	NM
FQ1 2020	0.21	0.36	▲71.43 %
FQ2 2020	(0.28)	(0.14)	NM
FQ3 2020	(0.49)	(0.34)	NM

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EXECUTIVES

Brett Shirreffs
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ANALYSTS

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Compass Point Research & Trading, LLC, Research Division

Charles Gregory Peters
Raymond James & Associates, 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 conference call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Brett Shirreffs, Head of Investor Relations. Please go ahead.

Brett Shirreffs
Head of Investor Relations

Thank you, and good morning. Welcome to Argo Group's conference call for the third quarter of 2020. 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.argogroup.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
President, CEO & Director

Good morning, and thank you for the introduction, Brett. Welcome to everyone on the call. We filed a short slide deck this morning that is also posted on our website. I will refer to certain slides at various points in my prepared remarks. Today, I will speak to you about some of the strategic progress we have made over the recent months and our plans for the future. I will also discuss some of the positive signs we are seeing in the market environment and comment on our results for the quarter.

Since I last reported to you, and throughout the year, we have made significant progress as a company. Slide 3 provides a summary of some of our key achievements. There are 5 key projects where I am pleased to report additional detail.

As we announced yesterday, we have entered into an agreement to sell our reinsurance business, Ariel Re. We expect the transaction to close later this year, subject to certain regulatory approvals. We have also made progress on a plan to exit our underwriting operations in Continental Europe outside of Lloyd's. This includes our platforms in Italy and Malta. In Italy, we are closing -- close to finalizing an agreement to transfer employees and sell our operations to a third party.

In Malta, we have stopped writing new business altogether. We will continue to evaluate options for the business going forward.

In the U.S., we have decided to put our grocery and retail business unit into runoff. We have not been able to achieve either the scale or returns to continue to invest in the business. Finally, 3 weeks ago, we announced entering into a reinsurance to close transaction for Syndicate 1200's reserves for the 2017 and prior years. In total, the business I just outlined represents over $400 million of annual gross premiums, all but approximately $30 million of this comes from our international operations. I would note, on a net basis, the impact on premiums and underwriting results is less meaningful. These businesses, in total, represent approximately $175 million of net premium, including approximately $75 million from Aerial Re.

As we have discussed previously, we are constantly reviewing the best uses for our capital to produce the best possible returns. This series of announcements does not mean we are done. We continually review businesses that are underperforming or not aligned to our strategy, and we'll pursue options to maximize value for Argo and redeploy our capital elsewhere. These actions reflect a lot of hard work from many of my colleagues since the start of the year. This represents an important step in our journey to becoming a high-performing U.S.-focused specialty insurer.

We know we are not there yet, and there is plenty of work ahead of us, but I'm excited about the progress we have made. Exiting these businesses will free up capital, resources and management time to focus on our strategic growth areas. As we and many in the industry have reported, underwriting conditions remain attractive across many lines we operate in. Our strategy is to focus resources on the highest returning areas and these strategic actions help support that goal. I would also note that the reinsurance to close transaction provides us with protection against any further reserve volatility from the years of account 2017 and prior for Syndicate 1200.

The transaction was priced approximately at our booked reserves, which is another sign of comfort with our current reserve position. We are happy to put this behind us and focus on better underwriting opportunities we have ahead. As we have said before, our goal is to become a more focused and efficient organization.

Today, we are sharing our plans to take expense actions of $100 million against total expenses incurred in 2019 of $724 million. We will be reinvesting some of these savings into our ongoing businesses where we are generating better returns. We expect the savings to result in an expense ratio of 36% by year-end 2022, which is a 250 basis point reduction from 2019.

We provide additional detail on Pages 5 and 6 of our slides. We believe this is an achievable near-term target that we will hit by focusing on a few key areas. First, we have announced several new executive hires and departures in recent months. The reorganized leadership team will reduce the size and cost associated with senior management.

Second, we are reviewing our real estate footprint and have reduced our marketing budget. Since sheltering in place began about 7.5 months ago, almost all of our employees have been working remotely. This has allowed us to reevaluate travel, entertainment and real estate needs for the future. Most of our leases are long term, but we expect to produce savings in this area.

Third, we have and will continue to exit businesses that are not able to control costs or meet our return hurdles. Several of these actions and transactions I mentioned a moment ago fit into this category.

Lastly, being a more focused organization, we'll reduce needs for some external resources, and we expect to reduce certain holding company and investment expenses. There has also been a drag on our results from other corporate expenses. In 2019, other corporate expenses totaled $38 million. These costs are not included in our expense ratio, but have a meaningful drag on our results. I'm pleased we incurred only $400,000 of other corporate expense during the third quarter of 2020, and we do not expect these costs to impact our results in the future.

We believe these actions are a positive initial step to bring our expense base more in line with our peers. While we're highly focused on reducing expenses, we will continue to invest in our platform. Today, we are seeing opportunities to benefit from investments to improve our processes and increase automation. We provide several examples of this on Page 7 of the presentation.

We are confident these investments will continue to support long-term sustainable benefits to underwriting results by being able to handle more business with the same amount of resources. This year, we expect to spend about $10 million on our digital investments. We believe we are getting good returns on those investments as they support some of our most profitable and fastest-growing business units. A good measure of this is our U.S. operation -- in our U.S. operations is premium per employee. In the last 10 years, we've been able to double the amount of premium we write, with roughly the same headcount as seen on Page 8 of our presentation.

Turning to market conditions. We continue to see strong rate increases during the third quarter. On average, pricing was up more than 10% across the group. The U.S. was up over 9% on average, while International was in the mid-teens. We are encouraged by our ability to get rate and do not foresee slowdown in the momentum. Additionally, we are seeing favorable changes in terms and conditions.

While the pandemic is certainly having an impact on the economy and growth in certain lines of business for us, we remain very optimistic about the underwriting opportunities ahead of us.

Our financial results for the quarter were impacted by several natural catastrophe events, mainly U.S. windstorms and wildfires as well as additional catastrophe losses from COVID-19. The combination of these pushed us to an underwriting loss for the quarter. However, on an underlying basis, there were some very positive signs in our results.

Our current accident year ex-cat loss ratio improved 4.6 points from the prior year quarter. Better result was primarily related to stronger rates and reunderwriting actions we have taken across our book of business. Similar to the first half of the year, reserve development was modest in the quarter. Both our U.S. and International operations experienced favorable development in the third quarter. And on a year-to-date basis, this was offset by strengthening in our runoff segment, primarily related to the legacy asbestos exposures.

We are very pleased with the stability of our reserves have shown this year. As we mentioned in last quarter, we had a third-party review done at year-end 2019. Study showed a central estimate that was in line with our booked reserves. We now have 3 quarters in a row during 2020 with very modest net development. Overall, we remain comfortable with our current reserve position.

The expense ratio was up 60 basis points from the prior year quarter to 36.9%. However, it was down nicely from both the first 2 quarters this year. Although it won't continue in a straight line, we expect our expense ratio will move in the right direction to 36% by year-end 2022. As you recall, at the beginning of the year, we set our combined ratio target of 96% to 98%. On a year-to-date basis, our combined ratio is 104.8%, above our original target. However, if we apply a more normalized cat load to our results, we would be within our guidance range for the first 9 months of the year.

Page 4 of our presentation shows our year-to-date performance relative to our guidance range in 2019.

Looking through the impact of catastrophes and COVID, our underlying performance for the first 9 months of 2020 has been strong. In terms of growth, our top line was up about 1% in the quarter. U.S. growth was 2.4%, while International declined 1.4%. In the U.S., I would note all lines of business experienced growth with the exception of Liability. The primary driver of the decline in Liability was our workers' compensation business that has been impacted by payrolls. This included our fronting business, where we don't retain any of the risk, and to a lesser extent, at Rockwood. Despite this impact, the U.S. still reported its strongest premium quarter in history. I would also note that liability submissions were up more than 5% in the quarter.

We are making good progress on the underwriting side and anticipate continued benefits from the strong market conditions across many areas of our business and the expense initiatives we now have in place. We're extremely well positioned to our size with our capabilities and talent to continue to build a leading specialty insurance business. I will now turn the call over to Jay to discuss our results in more detail.

Jay Stanley Bullock
Executive VP & CFO

Thanks, Kevin. I'll spend the next few minutes sharing some more detail on our results, and then we'll take your questions. For the third quarter of 2020, Argo reported a net operating loss to common shareholders of $11.9 million or $0.34 per share, an improvement from last year's results of a $0.44 per share loss. And while still a loss, the current period was -- it was impacted by fundamentally different factors than last year's results, namely elevated catastrophe losses included losses -- including losses stemming from COVID-19.

The underlying current accident year margins represented a significant improvement. And for the third quarter running, prior year loss activity was not material. A further positive note, we experienced a nice rebound in the marks on our private equity and hedge fund portfolio that are reported through our net investment income.

First, on the top line. Gross premiums written of $890 million were up approximately 1% from the prior year quarter. Similar to last quarter, growth was impacted by continued strong rate improvement, being partially offset by lower insured exposures as a result of economic headwinds and the exit of business that Kevin alluded to in his comments.

In the third quarter, U.S. gross premiums were up 2.4%, our growth was driven by a continuation of positive rate trends and strategic growth initiatives in certain business lines.

The strongest growth was in Professional Liability and Inland Marine. Net written premiums declined 3% in the quarter, primarily due to the impact of additional reinsurance purchases relative to last year's quarter. On the International side, our gross premiums year-over-year were down 1.4% in the third quarter of 2020. This reflects a balance of rate increases that continued in the mid-teens during the quarter, offset by certain profitability initiatives, including exiting business lines and terminating binding authority relationships.

Overall, we feel good about the top line in the quarter. As Kevin noted, this was the largest gross premium total in the history of our U.S. business. And International was down only modestly and in line with our strategy to focus on profitability over growth.

Given the macro backdrop, we think this is a pretty good result. Our combined ratio in the quarter was 110.7% compared to 111.4% in the prior year period. The 2020 result included 16.5 points of catastrophe losses, which were primarily due to U.S. hurricanes and wildfires. The remainder was due to the continued impact of COVID-19.

Similar to the last quarter, most of our catastrophe losses related to COVID-19 were the result of event cancellation exposures within our contingency business. We believe we have manageable exposure and expect future losses related to COVID-19 will be meaningfully lower than we have reported on a quarterly basis during 2020.

As to the contingency business, virtually all exposed events will have been determined by the middle of 2021, and the impact from those events is modest in comparison to recent quarters. The U.S. combined ratio was 102% in the quarter and included $26 million or 9.4 points of catastrophe losses. The International ratio was 116% and included approximately $45 million or 30.9 of catastrophe and COVID-19-related losses in the quarter.

Reserve development in the quarter was unfavorable by $1.6 million. This reflects favorable development in both our U.S. and International operations, offset by asbestos-related strengthening in our runoff segment. Overall, we're very pleased that for the third quarter in a row, net reserve movement has been modest. And on a year-to-date basis, both the U.S. and International are reporting favorable development.

On an underlying basis, excluding catastrophes and prior year development, our loss ratio and combined ratio showed very positive year-over-year improvement. Our ex-CAT accident year loss ratio improved 4.6 points from the 2019 third quarter. And on a year-to-date basis, it is improved by 2.3 points. This demonstrates to us that our underwriting actions over the last 18 months are beginning to bear fruit and depict up in the numbers.

In the U.S., we reported a 1-point increase in the current accident year loss ratio, excluding catastrophes. The increase includes approximately 1.7 points from 2 large claims, while the prior year did not have any similar experience. Overall, we're excited about what we're seeing in terms of underlying margin trends, particularly with the pricing environment that appears to have strong momentum for some time to come.

Our expense ratio in the quarter was 36.9% compared to 36.3% in the prior year quarter. The current period was impacted by reinstatement premiums, which increased the ratio by 0.3%. While we are still above our ultimate expense ratio goals, as Kevin shared earlier, we have a strategy to address our expense ratio and have established targets as he outlined. In the U.S., the expense ratio was up a little over 1 point year-over-year. This primarily reflected change in business mix and the impact of reinstatement premiums.

On a year-to-date basis, our U.S. expense ratio hasn't improved compared to 2019 and stands at 32.2%. The International expense ratio showed some good progress in the quarter. We reported an expense ratio of 38.9%, which was flat with the prior year quarter. However, the expense ratio was down nicely from the first 2 quarters of the year, where it was over 40%.

Turning to investments, our investment portfolio performed well in the quarter and included a nice rebound in our alternative investments. Alternatives contributed $19.3 million to our investment income during the quarter, that's private equity and hedge fund marks rebounded. This also included the receipt of a performance-based contingent payment related to the 2017 sale of an investment that had been accounted for on an equity basis, and therefore, included in investment in the company historically. That gain was just over $6 million.

Our core portfolio continues to face pressure from lower yields and tight credit spreads. Investment income, excluding alternatives, was down approximately 30% from the prior year quarter to $22.7 million. Part of this decline reflects derisking decisions we made late last year, but the general yield pressure in the market is unavoidable, and we are not currently looking to expand our risk appetite.

I would note that the foreign exchange loss was greater than we have experienced in prior quarters and the result of an increased level of volatility in currency markets related to the dollar, pound sterling, euro and Canadian dollar. A portion of this loss is offset by gains in our investment portfolio from assets held in non-U.S. dollar currencies.

Turning to capital, during the quarter, as expected, we used part of the proceeds from the preferred stock offering to repay the outstanding term loan of $125 million. Again, I would note that preferred provides capital credit, while the term loan did not. Our book value per common share was down slightly in the quarter, but was flat relative to June 30 when adjusting for dividends.

I'd like to provide some thoughts around our announced transaction to sell our reinsurance business, Ariel Re. As we have discussed previously, Ariel was largely supported by third-party capital. In 2020, Argo's capital commitment to support Ariel was approximately 26% of the capital supporting the business against, which we had approximately $100 million deployed. Under the agreed transaction, we will keep the historical reserves and the remaining exposures related to the 2020 year of account. And the buyer will provide the capital for the business going forward.

We expect that this will free up about half of our capital commitment at closing, with the remaining half to be released over the next 2 years. I would note that there are only about $80 million of reserves associated with this business and that they relate mostly to short-tail lines.
Operator, that concludes our prepared remarks, and we're now ready to take questions.

Question and Answer

Operator

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

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

Let's just first step back and talk about the business that you're -- I think you called out $400 million of total gross written premium and $175 million in net written premium that's going to be coming off of the books. Can you talk about what the combined ratio was on that business relative to the group average? Just trying to understand from a modeling perspective. Is this going to be a lift or a drag on the loss and expense ratios?

Kevin James Rehnberg
President, CEO & Director

Yes, Greg. The -- let's Let's exclude the reinsurance business from that because that was performing okay for us and in line. The reason that we sold the reinsurance business was that the returns and the -- we're shifting capital to lower volatility, as Jay talked about a little bit, that with our strategy today, we're not set up for the volatility, the upside and the downside that comes with that business. So It wasn't necessarily about performance in that business itself.

So the other ones that you're talking about would be Europe, the two European operations and Argo Insurance. And suffice is to say those had been drivers of poor results. We have not talked about them in the past, but I -- splitting it out like that, I don't have the number off the top of my head, but I can get it for you.

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

I'm just directionally...

Kevin James Rehnberg
President, CEO & Director

They certainly underperformed. And that's why we've been taking underwriting actions in those businesses over the last several years, right? So to come under review, the businesses are either not making the appropriate returns or they don't fit the strategy, or we're not the right company for the strategy that you could get with an organization such as Ariel. I think about it that way.

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

Got it. Okay. I understand directionally where you're trying to head with this. And I know, you, in your slide deck, you focused on that Slide 8, which is the employee count for gross written premium. I look at that in the context of you dropping next year $400 million of gross written premium. Is that -- will we see that -- will we see that chart on Slide 8 go down now because of the reduction in gross written premium?

Kevin James Rehnberg
President, CEO & Director

That's a really good question, Greg. I want to point out this slide is for the U.S. operations only. And it was the point -- it was really to highlight what the investments in digital and systems have done over the past 10 years since the initiative started. They weren't all digital until 2012, but in '11, some of the work started on the workflow side.

And It's important to note that through that period, there was also about $600 million of business that was pushed out. So this is U.S. exclusive. And the whole point is to show that we have put tools in place, and we're moving to businesses that are efficient and profitable, but we can continue to grow as we do that, and we're setting ourselves up for really good growth going forward.

The impact of the largest premium you're talking about is going to be felt in the International business. And because of that, we're going to have not a linear drive towards the 36% group expense ratio. There's going to be costs associated with the exit of some of those businesses or reunderwriting that goes on. So that's why we said it's over a 2-year period that we're looking at.

And we'll, each quarter, track and let you know where some of those moves come from. But there will be sometimes where there's costs associated with exiting it that will appear in the business.

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

Got it. And then I guess the other area just to talk about, and I know you've provided color around the expense ratio and reinstatement premiums causing some headwinds to improvements there. But as an offset to that, most of the companies that we're dealing with are reporting favorable -- favorable expense ranges like on travel and entertainment, et cetera. And I guess, to some degree, we didn't see as much of that come through in their consolidated numbers this quarter. When you go forward, I mean, do you -- are you -- is it your intention not to incur travel, entertainment and to keep it at these current levels as we think '21 and '22?

And I'm thinking about this in the context of your goal to get down to the 36 expense ratio. Where is that going to come from essentially?

Kevin James Rehnberg
President, CEO & Director

Yes, yes. No, that is a great question, Greg. If you go to Page 6 and look at the 4 segments, right? We actually talked about T&E in there. The best way to think about this is that the bottom one, other general expenses is going to be about 1/3 of the total. The one above it, business rationalization is going to be a little bit less, but roughly 1/3. And then the other two are going to be split with the remainder with more weighting towards marketing and T&E and real estate. So there has been some savings this year from where we were at '19. And those total around $55 million across the 4 buckets. So costs are associated with that. So you're not going to -- like in bucket 3, there's a lot of costs associated, and there's some in Bucket 1. So you're not going to see that necessarily in the expense ratio itself.

Similarly, where we've had reductions in real estate, travel and entertainment and marketing, those will continue longer than we thought, but they're going to -- they'll go back up at some point in time. Well, T&E will go back up when the world eventually starts trading face-to-face again. But I -- because we are reducing our footprint in terms of where we have people and the business we're focused on, we expect there to be a reduction there. And we're not going to go -- we're not going to operate the same way we did with the types of meetings that were conducted and the amount of business travel. A lot of people have been able to figure out how to use the technology to work well and get the business for us. It doesn't work in every line of business, but it works in most of us quite well.

So -- but we'll address those each quarter, and we can highlight when we're starting to travel again. And I think what we want to be able to do is give you insight into what's in the buckets and a scorecard update each quarter. So What's left unsaid there is this $45 million and that roughly equates to 250 basis points that we talked about, that would get to the 36 by year-end 2022.

And I keep emphasizing that because there may be times when it ticks up and it doesn't look linear, it may get frustrating.

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

That makes sense. I guess the final question and I'll let others ask, would be strong capital management. Your stock is trading below book value, you have a track record of dividends and, at times, share repurchase. Where does the Board stand with capital and capital management and specifically share repurchase?

Kevin James Rehnberg
President, CEO & Director

Yes. So I think, every meeting we look at the alternatives we have, and one of them is share repurchase and other would be dividends, obviously. And then the third one, which has been really what we've been pushing the money towards is business opportunity. And as we continue to see good business opportunities, any excess capital we have we'll go there first.

Operator

And our next question comes from Jeff Schmitt of William Blair.

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

The -- on your expense ratio target of 36%, could you give us a sense on what your targets are for each book? I mean, is a lot of that coming from the International? I just want to get a sense on what the -- like what the U.S. target is?

Kevin James Rehnberg
President, CEO & Director

No, that's a good question. The majority of it would have to come in terms of a percentage basis on the expense ratio in each segment from the International, both because it's starting so high. But the growth that we're going to have in the U.S. business is outpacing the business in the International area. So that means that they'll be more cost borne by the U.S. business. So even though they're all U.S.-focused businesses, right? It's just math. So we will be working on both sides, but I think you'll see more investment in the U.S. and probably, over time, more on a percentage drop from the International side.

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

Okay. And then when we look at sort of corporate expenses, which you can kind of, I guess, back into, if you take that total underwriting expense line and subtract out the segments. Historically, that had been probably averaged $12 million a quarter, $13 million, $14 million even, and that's been running at $8 million. Now I know there's incentive comp in there, which can vary, but it's been $8 million this quarter -- last quarter. Is that the right run rate? Or is there some incentive comp lower there where maybe that's going to be $10 million or $12 million going forward?

Kevin James Rehnberg
President, CEO & Director

Yes. So it's not an easy question to answer for you, I'm sorry. Because with some of the departures that we're going to have, some of that may impact what was in the incentive comp and that move as we go forward as well. But what I would say is that the -- our expectation, over time, is that, as the business gets more focused, there will be a reduction there. Jay, do you want to add anything here?

Jay Stanley Bullock
Executive VP & CFO

Yes. No. So I think you got to the point I was going to get to, Kevin. And I would say that, currently, kind of $10 million a quarter. Remember, this is the cost that we retain at the corporate level. Think of it as the cost of running a public company and a public company that trades in several international markets. As the platform simplifies there's opportunity to reduce that cost. So right now, that's what I would think of it as, but that's also something where I think we plan to make progress.

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

Okay. And then in -- one more on the expense ratio, the 36% target. Does that assume that the Ariel Re deal gets completed? I mean, I presume you still have regulatory approvals and all that. I don't know if was Ariel Re was rerunning at a much higher or lower expense ratio than that?

Kevin James Rehnberg
President, CEO & Director

That is a very good question. The -- it does contemplate the sale of Ariel, right? We're waiting regulatory approval. But the -- our intent and the buyer's intent is to move forward. And the reinsurance business had -- has some -- on a direct basis was not as expensive as the rest of the organization. However, there was a lot of resource consumption. So some of that corporate expense would show up in that area. So -- but it's all contemplated.

Operator

[Operator Instructions] Our next question comes from Casey Alexander of Compass Point.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

You called out the fact that you had added reinsurance purchases to the net written of U.S. operations. Is it the company's feeling that looking at the prevalence of CAT events and the changes in weather patterns that you may actually further increase reinsurance purchases in the U.S. operations to, again, dampen the volatility of earnings related to CAT events?

Kevin James Rehnberg
President, CEO & Director

We protect the exposure to CAT events across the group. So that's done with what's looked at as the property exposure we have in the U.S. book through the Bermuda operations and through the International operations. So I don't think there'll be a change in how we look at that. But on the casualty side, we've had some significant reductions in our limits exposed in not only the Bermuda casualty market, but -- where it's down 27%, but also in the U.S. casualty market. Our excess limits are down 15% year-over-year. In Argo Pro, over a 2-year period, they're down 25% with an increase of cumulative over that 2-year time period 60% in rate.

So we'll be reevaluating what our reinsurance purchasing needs are and whether the programs fit the current limit profiles because they've changed, and that could lead to some savings for us in the U.S.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Okay. Secondly, I understand, if I got this right. You have about $100 million of capital deployed to the reinsurance and the transaction would free up about $50 million immediately and the rest over a couple of years. But is there also a purchase price related to the transaction?

Kevin James Rehnberg
President, CEO & Director

Yes. We haven't disclosed that. We'll wait til the close. So...

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Okay.

Kevin James Rehnberg
President, CEO & Director

But when it's appropriate, we'll come forward with the appropriate information.

Casey Jay Alexander
Compass Point Research & Trading, LLC, Research Division

Well, it costs me nothing to ask the question. So...

Kevin James Rehnberg
President, CEO & Director

Of course, it doesn't, right?

Operator

And our next question comes from Bob Farnam of Ben Scatter.

Robert Edward Farnam

Boenning and Scattergood, Inc., Research Division

So you've made -- obviously you made a lot of changes in the International business with the selling of Ariel Re and the reinsurance to close transaction at Syndicate 1200 and the changing -- exiting the Continental Europe operations. The question is probably for Kevin, what do you actually envision for international going forward? Is this relative to the overall pie here, how much of this is going to be International? And what types of this will be in that unit?

Kevin James Rehnberg
President, CEO & Director

Yes. Bob, that's a good question. I'm glad you asked it because it highlights what we've talked about in this supplemental debt today, where we talked about being a U.S.-focused specialty insurer. And we -- there is -- we are focused on specialty insurance. It -- we write a lot of it in the United States. It does make its way -- specialty insurance that's U.S.-based, makes its way into the Bermuda market where we have a platform, and it's Lloyd's where we have a platform. The reunderwriting that's gone on in Lloyd's, and we didn't talk about it, but there's been a number of stories throughout the quarter about some areas we've gotten out of in Syndicate 1200 like the cyber area or we've gotten out of Professional Liability that wasn't related to the U.S.

So I think those type of things will help identify that we're going to use those platforms. And as long as the businesses can perform at the hurdles that we're setting then they'll remain. If not, we'll have to put them under review.

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

So as of right now, since they're still around, have they been performing to your hurdles?

Kevin James Rehnberg
President, CEO & Director

Well, I think when you talk about - certainly recently, Bermuda, yes. I think last year was obviously challenged, right? When we had some reserve increases. So on an expense side, Bermuda operation is very, very good. The challenge in the 1200 operation is the expense side, but their loss ratios are good. So we've got to look at the total business and what kind of return we're getting and the fact that there's predominantly U.S. business that we're writing there and, going forward, we'll just continue to watch it. And if it works out, that's great. If it doesn't, we'll look at alternatives.

Operator

This concludes our question-and-answer session. I would now like to turn the call back to Kevin Rehnberg for any closing remarks.

Kevin James Rehnberg
President, CEO & Director

Thank you. I'd like to thank all of our shareholders, policyholders, other stakeholders, employees and everyone interested in supporting the Group, producers and insureds, for your continued support of the organization and interest this morning. Have a good day. Thanks.

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