S&P Global
Market Intelligence

Argo Group International Holdings, Ltd. NYSE:ARGO
FQ1 2021 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.11)	0.44	NM	0.85	2.23	NA
Revenue (mm)	489.98	523.60	▲6.86	484.28	1927.15	NA

Currency: USD
Consensus as of Apr-26-2021 8:00 PM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	(0.28)	(0.14)	NM
FQ3 2020	(0.49)	(0.34)	NM
FQ4 2020	(0.31)	(0.52)	NM
FQ1 2021	(0.11)	0.44	NM

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Call Participants

EXECUTIVES

Brett Shirreffs
Head of Investor Relations

Kevin James Rehnberg
President, CEO & Director

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

ANALYSTS

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

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

Robert Edward Farnam
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Presentation

Operator

Good morning, and welcome to the Argo Group First Quarter 2021 Earnings 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

Thanks, and good morning. Welcome to Argo Group's conference call for the first quarter of 2021. 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.argo group.com and was filed with the SEC. Presenting on today's call is Kevin Rehnberg, Chief Executive Officer; and Scott Kirk, 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.

Also note that we will be referring to certain non-GAAP financial information, more information regarding the non-GAAP financial measures are provided in our earnings release.

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. I'm happy to be speaking with you again today, just about 7 weeks since our investor update in March. A lot has happened since then, including a change in our outlook from A.M. Best. We are pleased that A.M. Best revised our outlook to stable, and we certainly believe that the actions we have taken demonstrate our commitment to producing better returns, becoming more efficient and maintaining a strong balance sheet.

We have the benefit of a few more data points since we last spoke, and our experience continues to suggest that the market remains strong and is likely to provide lots of opportunities for specialty carriers like Argo going forward. As you will see from the numbers, our strategic actions and expense focus are beginning to become evident in our underlying combined ratio results.

Pricing, terms and conditions, all have maintained momentum and there are signs that parts of the economy are turning. This environment should allow us to grow in a disciplined manner while improving our margins. While our top line was impacted by business exits and reunderwriting actions, our strategic growth areas continue to produce strong growth and margin results. Excluding the impact of Ariel Re, our planned exits in Italy and Malta and our U.S. Grocery business, gross premiums were up approximately 6.5%.

This is within the growth range that we outlined for the full year when we provided guidance in March. Both the U.S. and International segments contributed to this underlying growth picture, although it was impacted by our actions to reduce property exposure.

I'll spend some more time on this in a few minutes. During our investor update, I highlighted 6 business units in the U.S.: Argo Pro, Casualty, Construction, Environmental, Inland Marine and Surety. These businesses represented 60% of our U.S. premium base during the first quarter and grew by more than 15% versus the prior year. Each of these 6 businesses units experienced positive rate increases during the first quarter, which is a great sign as we already have a track record of underwriting profitability for this group.

In the first quarter, the combined ratio of these businesses was comfortably below 90% with minimal catastrophe losses. In International, our underlying growth was primarily related to strong rate increases in the mid-teens on average. I'm also very pleased that our current accident year ex-CAT combined ratio of 93.4% improved by 250 basis points from the prior year quarter. This improvement was a result of both a better current accident year ex-CAT loss ratio and a lower expense ratio, which demonstrates solid execution against our priorities.

I would note that the result was the lowest current accident year ex-CAT combined ratio we have reported in more than 4 years. This success is a function of our focus on deploying resources and capital to our highest returning businesses, a strategy that we have been very clear about over the last 18 months.

We will continue to focus on improving this ratio through disciplined underwriting and appropriate expense management. One area of focus that we have discussed over the last couple of quarters is reducing volatility in our business, particularly property exposure. The most visible example of this was the sale of Ariel Re in November 2020. Ultimately, the sale of Ariel will remove quite a bit of volatility as our remaining exposure runs off. We have also managed to reduce the net exposure of our Specialty Property insurance business.

During the first quarter, we aggressively reduced the size of our U.S. Property and Contract Binding books. In recent quarters, these 2 business units have contributed a significant portion of our catastrophe losses in the quarter. Premium for the Specialty Property business unit in our U.S. segment was down more than 50% and our U.S. Contract Binding business was down more than 25%. We were disappointed with the level of catastrophe losses we experienced in the quarter, but we believe we are taking the right steps to produce better results with less volatility going forward.

As we have noted previously, the actions we have taken over the last couple of quarters will take time to play out. However, we expect to be in a better position before Atlanta hurricane season this year as most U.S. property renewals happened prior to June or July. This includes a meaningful reduction in our remaining exposure to Ariel RE. Based on the actions we have already executed and our plans for the rest of the year, we expect that if the same winter storm event were to happen again next year, our losses would be reduced by approximately 50%.

As of April 1, our modeled 1 in 250 year Florida PML was down 12% from year-end 2020 and by July 2, we expect it to be down 40% to approximately 4% of shareholders' equity, as we outlined during our investor update.

While these actions will continue to impact our top line for the remainder of the year, we believe they are prudent decisions that will lead to better results and returns for our shareholders.

Turning to the Environment. Rates were broadly consistent with last quarter. We saw a few businesses continuing to experience accelerating rate increases, while a few pulled back slightly but remained positive.

Overall, rates were up more than 10% on average across the Group. This is the fourth consecutive quarter of rates being up 10% or more. In the U.S., we saw rate increases of just below 10%, while International was comfortably in the mid-teens.

Additionally, we have continued to be successful in reducing limits and raising attachment points. Submission growth was another positive trend we saw in the quarter, excluding Property and Contract Binding, where we are actively pulling back. Submissions were up modestly across our U.S. operations, looking closer at some of our focused growth areas such as Argo Pro, Casualty, Inland Marine and Surety, all these units experienced strong submission growth in the first quarter that was well above the segment average.

Looking at data from April, submission trends have improved with overall submission growth in double digits, excluding Property and Contract Binding. These trends give us confidence that we are offering products and services our insurance and brokers value, and will provide us with the opportunity for growth going forward, regardless of market conditions. Another strategic focus I have spoken about in the past are our efforts to simplify and modernize Argo's platform. With this initiative, we aim to enhance our efficiency and ability to scale the business going forward.

Central to this is having fully integrated systems, what we call the Argo One platform. The goal is to be able to harness better data more quickly so our leadership can make dynamic and real-time informed decisions to manage their businesses. We expect this will result in improved customer service and lead to better growth and profitability over time as we are able to retire legacy systems and processes.

We have partnered with industry standard companies like Duck Creek and Appian to create this integrated ecosystem. The Argo One platform will provide benefits across our business, including policy, billing and claims administration, workflow management, distribution, submission intake and marketing.

We are initially rolling out these enhancements in the U.S. with Inland Marine as the first business unit to operate on the Argo One platform. We expect this deployment will be complete by the year -- by the end of this year, 2021, and with other business units coming onto the platform over time. This is a multiyear program that we are deploying across most of our U.S. business in the coming years. As this project moves forward, we will continue to provide progress reports and share some of the benefits that we are realizing.

So while we are focused on reducing our expense ratio, it's also worth noting we are making meaningful investments into our operations. We are very excited about this strategic investment and expect it will allow us to continue to grow our business and improve efficiency.

I will now turn the call over to Scott to discuss our results in more detail.

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

Yes. Thank you, Kevin, and good morning, everybody. In the first quarter, we made good progress towards our strategic initiatives and our financial targets. The ex-CAT accident year combined ratio for the quarter of 93.4% is a 250 basis point improvement over Q1 2020. Importantly, this being driven by improvement in both the ex-CAT accident year loss ratio and the expense ratio.

Our operating EPS was $0.44 for the first quarter and annualized operating return on common equity was just under 4%. These improvements have been achieved despite the catastrophe events during the quarter.

Turning to operating results. Gross written premiums declined 8.4% in the first quarter of 2021, largely due to the impact of the sale of Ariel Re and the business exits we have announced over the last few quarters. As Kevin mentioned earlier, excluding these business exits, premiums were up over 6% in the quarter.

As we said at the investor update in March, although gross written premiums were going to decrease as a result of the exited businesses, we expected net written and net earned premiums to increase. And this is what has occurred during the first quarter, with net written premiums and net earned premiums up 11% and 7%, respectively, compared to the prior year quarter. While a significant component of the change results from the exit of businesses, the remaining increase is driven by business mix, a reduction in some fronted business in the U.S. in addition to reduced third-party capital in our international operations. We reported a loss ratio of 66% in the first quarter of 2021, up from 64.6% from the prior year period.

This increase was driven by higher catastrophe losses, which totaled 10 percentage points or just under -- compared with just under 7 percentage points in the prior year quarter. The current accident year ex-CAT loss ratio was 55.6% in the first quarter of 2021, which represents a 1.7 point improvement in the prior year quarter. The improvement reflects the impact of rate increases and targeted underwriting actions.

Our CAT losses totaled $47 million, of which $43 million were related to natural catastrophes and $4 million related to COVID losses. Included in our natural catastrophe losses in the quarter was $7 million related to our remaining exposure from Ariel Re's open years of account. We expect that the majority of our exposure to Ariel Re's U.S. Property business will run off around midyear. Reserve development was negligible in the first quarter of 2021 and marks the fifth quarter in a row that net prior year reserve movements have been small.

Before I move on to talk about expenses, I would note that we've made a few changes to our reporting this quarter. First, we are committed to being transparent and this quarter, we have provided a split of acquisition and general and administrative expense detail for the Group and at my segment. Second, we have created a new line item from nonoperating expenses. This will include costs that are not associated with our ongoing insurance operations, such as various transaction costs, severance and other strategic personnel related expenses and certain legal costs. We believe these changes will provide you with a better view of underlying trends and performance.

Turning now to the movement in expense. In the first quarter, our expense ratio was 37.8% and was down 80 basis points from the prior year quarter. As you would expect from our reduced levels of ceded premiums in the quarter, our acquisition ratio has increased marginally by 60 basis points to 17%. Conversely, the general and administrative ratio has shown a significant improvement and is down 140 basis points to 20.8% in the quarter. We said at the investor update that the improvement in the expense ratio will be driven by a combination of increased net earned premium and reduced expenses. In this quarter, you were seeing the impact of increased earnings coming through and reducing the expense ratio.

So while expense dollars are largely fat -- flat compared to Q1 2020, and we are making good progress against reducing future G&A expenses that we should start see coming through in the coming quarters. We said this improvement was not going to be linear, and we remain committed to the 36% expense ratio target in 2022.

Turning to the segment results. In the U.S., gross written premiums were up 2.7% compared with the first quarter of 2020. Growth was primarily driven by Professional and Specialty lines. Adjusting for the impact of its exit of the Grocery business and at targeted reductions in Property and Contract Binding, gross written premiums were up 10%. Net written premiums in the quarter were also up 9% due to the increases in gross premiums and some changes in business mix.

The U.S. segment reported underwriting income of $11 million, a combined ratio of 96.4% in the first quarter of 2021. Included in the combined ratio was just under 7 points or $21 million of catastrophe losses primarily from Winter Storm Uri. Current accident year ex-CAT loss ratio was 55.7%, which is an improvement of 2.7 points from the prior year quarter.

The improvement in the loss ratio primarily reflects the impact of rate increases earning through the results. The expense ratio of 34.2% was up 2.4 points from the prior quarter. While the general and administrative expense ratio was stable at 18%, the acquisition ratio was up 2.2 points to 16%. Now the increase in the acquisition ratio was due to a combination of current year increases driven by some changes in business mix and reduced fronting fees, in addition to the prior year benefiting from some additional ceding commissions that were recorded in the first quarter of 2020.

Turning now to our International segment. Gross written premiums were down 24% due to the impact of the sale of Ariel Re and our planned exits in Italy and Malta operations. Excluding these businesses, gross written premiums in International increased 12% in the first quarter of 2021. Net written premiums of $128 million increased 16% versus the prior year quarter. As we noted during our investor update, historically retained only a small portion of the Ariel premium net.

With that premium running off in 2021, you can see that our premium retention ratio increased from 32% in the prior year quarter to 48% in the current quarter, and we expect this ratio to trend higher over the course of the year. International segment reported an underwriting loss of $22 million and a combined ratio of 114.4% in the first quarter of 2021. Included in the combined ratio was just under 18 percentage points or $27 million of [security] losses. CAT losses included $4 million related to contingency business exposed to COVID. The covered related CAT losses have been trended lower over the last few quarters, in line with our expectations, and we expect this trend will continue.

Current accident year ex-CAT loss ratio was 55.4%, which increased 8 basis points from the prior year quarter. The higher loss ratio reflects some increased large loss activity, partially offset by the impact of rate increases earning through the results. The expense ratio of 41.4% was down 4.2% from the prior quarter, with improvements in both the acquisition ratio and the G&A expense ratio.

The acquisition ratio was 19.1% and was down 3.2 points compared with the first quarter of 2020. The team had previously spoken about exiting business with higher acquisition costs and the benefit of these actions is starting to earn for.

Moving on to investments. We reported investment income of $44.4 million in the quarter. The result included just under $21 million of income from alternative investments, principally mark-to-market gains on our private equity and hedge fund investments. Although we are certainly pleased with this result, I would caution that the last 3 quarters have included elevated returns from these investments.

Net investment income, excluding alternatives, was just under $24 million in the quarter, which was down 28% from the prior year quarter. This decline reflects the derisking actions over the last 12 to 18 months as well as lower overall yields available in the market. Given what we see in the underwriting environment, we do not expect to be adding risk to the investment portfolio in the near term. And finally, let me comment on book value per share.

Our book value per share of $48.23 increased from $47 million to $37 million compared to Q1 2020. When compared to Q4 last year, however, book value per share, including dividends, declined 1.7% due to the unrealized mark-to-market losses on our fixed income securities.
Operator, that concludes our prepared remarks, and we are now ready to take questions.

Question and Answer

Operator

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

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

I will focus my first question around retention. There -- obviously, there's a lot of moving parts in your top line with the sale of Ariel Re and the other actions that you're taking. But there has been some noise in the marketplace about some other departures that weren't necessarily planned for within the company.

So I was wondering, Kevin, without specifically calling out things like that, if you could just give us an idea of how retention is evolving at the company with key producers and key underwriters and if you think that everything is intact or where your challenges are?

Kevin James Rehnberg
President, CEO & Director

Yes. Greg, thanks. The movement of people happens from time to time in the business, and we do have some going in and some coming out. And I think it's important to remember that all of our businesses have different stages. And in each stage as they grow and develop, there's different skill sets that are brought to the party by certain leaders, and some of them are needed by us or desired by those folks.

So as an example, folks who really enjoy building businesses, there's a lot of opportunities in the marketplace at the moment with a lot of the capital that's moved in, in some of the new entrants and folks find that attractive. The good news is we have institutionalized our businesses, and we don't have anything that's dependent upon any one individual. We've got strong leadership teams and very good producer relationships.

To just briefly move to the retention piece with the producers. Our retentions of -- renewal retention has actually moved up this year in most businesses, they're the ones that we're trying to grow in, as opposed to what we've seen in previous years. But the opportunities that exist then for individuals as some of these leaders move on is also helpful, all the way down the line.

And it's really not that unusual. The timing of this is unusual that there were several at 1 time, and we got a couple of headlines. But when you look at the 6 businesses we identified, 2 of those we've had leadership changes in, but we had 2 leadership changes last year in those businesses, too. And so again, it's not something that's unusual for a specialty business.

The timing and the headlines are, as I mentioned. But I think we're in great shape for growth going forward, and these businesses are performing well with good teams.

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

Great. Makes sense. Can you -- I'd like to pivot to the expense ratio in the U.S. operations. And I'm just looking on that table that you provided.

And I do appreciate the breakout of acquisition and general and administrative. It provides some additional clarity to the moving pieces. And I guess when I look at that, I'm trying to reconcile what you're saying about these improvements and investments with the numbers I'm seeing on the page as it relates just to the U.S. operations.

So maybe you can help bridge the gap, why the acquisition ratio was up, why the general and administration expense ratio was up in the quarter. I'm sure it's -- there's a reasonable explanation to it.

Kevin James Rehnberg
President, CEO & Director

Yes. No, this is the one that really jumps out at everybody because it seems to be counter to what we've been saying. Only if you look at the first quarter of this year in isolation versus the first quarter last year. So what I mean by that is our expense ratio -- the way it generally flows through the year. The 3 previous years all ended up in the mid-32 range. And in the first quarters of those years, we had 34.3%, 34.4%, then 31.8% last year. So this is back to more of a normalized first quarter for us. And it balanced itself out last year, I mean, through the balance of the year.

The 2 things that drove the overall expense ratio the most were a reinsurance transaction timing, for one, and how it affected the earned premium in that quarter. And the other was related to some IT expenses. There is more detail to it than that, but that's, in general, the first part of your question answered.

The second piece on the acquisition costs, that is completely driven by business mix, although it was impacted a little bit by the Trident transaction we did. So that transaction drove up the expense ratio a little bit. But the trade-off, we thought was a good one for the overall business. But the business mix and some of the things we're driving out or have pulled out of, actually, had lower expense ratios.

And then on the G&A side, there -- I'll let Scott follow-up on this. But in general, it's -- some of it has to do with the size of a taxpayer. And that there's -- I don't think we've got an issue from that standpoint in terms of the investments we're making and the rate of growth there.

So overall, as we mentioned, it's not going to be linear, but some of the actions we're taking, some of the expenses that come through this year just are -- I don't want to use the word alarming, but they stand out in a way that I expected this question. So Scott, would you like to add anything?

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

Kevin, I think that's a pretty comprehensive answer. And Greg, I guess I'd just take us back to the investor update and say that, look, our expense story was going to be driven by 2 components here. The first one being increased earnings coming through, and you're seeing that importantly in the first quarter, and then the second piece would be about reducing our expense dollars. And I'm certainly getting my seat under the table here. And we have actually taken -- we've been able to take some actions early in Q2 here to reduce the level of expenses go forward.

And we remain confident that we're going to hit those expense targets that we have out there.

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

Understood. The other question that -- I have a lot of them, but I'll just pivot to the last question for net investment income. You called out the alternatives. You called out the lower run rate of investment income x alternatives. Should I look at the $23.7 million that you did in the first quarter of net investment income, excluding alternatives, is sort of like a good quarterly run rate, give or take?

Kevin James Rehnberg
President, CEO & Director

Yes. I think that's with the message we're trying to get across on the investor update and in previous calls, is that it's closer to that number. And that -- because I think folks have been thinking about reaching for something a bit higher, recognizing we still have an element of the other portfolio. So yes, that's -- Scott, do you want to add anything to that?

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

Yes. No, I think that's absolutely right, Kevin. I would say, though, with rates moving a little bit, Greg, we hope to see that number maybe come up towards the end of the year a little bit. But it's not going to be all that sensitive to cash flow in there. So look, it's not a bad run rate for now. And hopefully, we can come in a little bit higher than that towards the end of the year, but not that meaningful. I don't want to come across as it's going to be a major shift, but hopefully, a little up.

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

Okay. Just one final recommendation. And I don't want -- and I don't want this to be misconstrued because you do provide a lot of information. With all the moving pieces, understanding how reinsurance works and how storms may affect the your underwriting income would be helpful.

And I know you called out the -- you will have reduced your to Florida storms, 40% and 4% PML or 4% of shareholders' equity, beginning in the Florida storm season, but understanding how your reinsurance works for other events because Florida hurricanes aren't the only events out there.

And again, I'm not suggesting you provide the secret sauce in it. But some better clarity at some point might be helpful. And I just thought I'd throw that out there. That's all I have to say.

Kevin James Rehnberg
President, CEO & Director

No, Greg, it's a -- thank you. And it's a very valid point that a number of folks have been asking about. And it's because of the way the business is running off at a 1-1 time frame, the 4-1 renewals, anything that was 5-1, some that are 7-1s. And then how we're moving out of certain businesses, it does move -- it's literally been moving on like a monthly basis, but it's all been down.

And I think what we were trying to do with the Florida piece was be instructive to say, this is in general how things are moving forward. But the reduction will come back with a specific number at the next call in terms of what percentage it is down because by that point, it will be final.

But the actions that are being taken are moving us closer to that number, which is over 25% at the moment.

Operator

The next question comes from Bob Farnam of Boenning and Scattergood.

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

Just to continue on that theme. So I'm assuming your CAT load that you're looking for, you had been in kind of the 3% to 4% range every year. As the business flows off as Ariel Re flows off, we do expect that CAT load, like the CAT load for 2022, for example, would that theoretically be lower than it has been?

Kevin James Rehnberg
President, CEO & Director

Yes. Bob, that's a great question. And I think in theory, yes, but in practice, probably not, given the fact that the catastrophes that we're facing and everyone's facing are up. And I think when you just look at the costs of rebuilding and things like that, that are coming into the overall exposures, while we're reducing exposure, the CAT profile and what we're facing doesn't seem to be abating at the moment.

So in order to counter that and accept the fact that we are getting rate, but we do need some other things. We'll probably keep it in the range it's been. This year, it's actually because of exposure was down, it's actually up over what it was. So I think we'll continue to assess that. And again, how much we reposition the book will drive what that number ultimately is, and we'll continue to talk about it.

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

Understood. Okay. I'm assuming -- so for the COVID losses, I'm assuming events are still being canceled as we speak. I mean, it's -- not everything is back up to running speed yet. So should we expect further losses here in the second quarter and perhaps in the third quarter as everything kind of gets back up to speed?

Kevin James Rehnberg
President, CEO & Director

Yes. So the approach we took, just for everyone's benefit, was that we were going to address them each quarter rather than just make an assessment, pick a number and try to figure out when it ended. And we did say it would decline every quarter, and that's exactly what has happened, and it's gotten down to a point now where it's a low single-digit figure this quarter. I would expect that the numbers will continue depending on how long the pandemic continues to have some things come in. But bear in mind that there may be some expenses at different times as we go into the future that show up just based on all the litigation that's out there, and the fact that some of this stuff may take 3 to 4 years to settle, given what estimates are coming from people. But I think the majority of our exposure was seen last year. And I think the numbers play that out. When you look at what we ended up with last year versus what you're seeing here.

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

We're -- I guess we're getting to the point now where it's been probably long enough since the beginning of COVID that -- did you start changing the policy language in some of these -- in some of your policies that perhaps would reduce the exposure as well?

Kevin James Rehnberg
President, CEO & Director

Yes. We really had -- that was not something that we had a big problem with across the board, right? I mean we had a few circumstances where we had specific coverage grants, but those have finite limits on.

And so I think there's -- it wasn't like we -- that situation in the U.K., right? We had a small exposure to that, but was very small, and it was dealt within a quarter that you've seen the numbers were previously. It wasn't like we had products that were out there that had a lot of exposure that way. So we just continue to move along. And we haven't seen new areas of development. There may be some, but our main exposure really was on the contingency side and then that specific property side.

And as I'd mentioned a year ago, we had a very specific environmental product that covered virus cleanup that we had in that first quarter there. And then some other property exposures that were across the board. But we're expecting it to be modest as we go forward.

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

Yes. Heard it. Okay. And last question for me. So in the past, we've been kind of guided to use maybe a 15% effective tax rate going forward. Is that still the case with all the moving parts and been getting rid of Ariel Re? I'm just kind of curious about the effective tax rate has changed or our expectations for the effective tax rate will change going forward?

Kevin James Rehnberg
President, CEO & Director

Yes. I'm going to pass this one right to Scott because he's in the middle of [that one].

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

I thought you might do that, Kevin. Look, Bob, it's a good question, and there are a lot of moving parts here because, as you know, your effective tax rate is always going to be driven by emergence of profits and where the emergence of those profits come from, right?

But for now, I think we're sticking with that 15% as our estimate. And look, if things change, and profit shifts around in the Group then will definitely come back and let you know.

Operator

The next question comes from Casey Alexander with Compass Point.

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

I guess I only get one chance to ask this question because the shift in business mix here has been pretty extraordinarily complex, with some lines completely stopped, some lines where you stopped the clock but there's still things earning in the growth on one side. So how do you see premiums earning in relative to what you earned in, in the first quarter over the rest of the year? Because it is a pretty complex mix of how your earned premiums are coming into the income statement.

Kevin James Rehnberg
President, CEO & Director

Yes. So there's a couple of things at play here that factor in as well. Some of the things we are out of no longer require reinsurance, and we had programs that may have reached across the Group that we're reassessing. And as we've -- so there's a reinsurance element of this as well. But remember, the largest group that was -- I don't know if it was the largest, but we went through all the premium last year on a gross basis.

But on a net basis, it was a lot lower, right? And as we go through the year, the growth we're seeing in the larger areas, absent in the U.S., will take care of whatever issues we are dealing with and moving out of in the U.S. That's the first piece.

On the International side, on the top line because of the impact of Ariel there's -- and some reunderwriting, it is more of an issue there with Italy and Malta.

And on the earned premium side, I don't remember the exact number. Scott, do you -- as to what that may be?

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

Not off the top of my head, Kevin.

Kevin James Rehnberg
President, CEO & Director

So we're going to have to come back to you on that in terms of what the expectation is. But it's all factored into the guidance we gave.

So it's -- and it's just tough to figure out because it will sort itself out sort of halfway through the year, right, because that's where I think this stopped.

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

So -- well, if you think it's tough for you, you ought to try it from the outside.

Scott Kirk
CFO, Principal Financial Officer & Principal Accounting Officer

Casey, it's Scott here. Maybe I can help a little bit with that. At the Investor Day, we did go back and try to give you a bit of a look both on a -- on how premium flowed through on an annual basis as well as the earnings split by the U.S. and International. I thought that might be a helpful place for a year to go and have a look to see if that plays in a little, in terms of what you're looking for.

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

Okay. Secondly, on the net investment income, I know your base is $23 million and change. But I mean are you suggesting that we just modeled no earnings for the alternative side? I mean, it would seem to me that there would be some expectation that, over time, that would add to that $23 million base.

Kevin James Rehnberg
President, CEO & Director

Yes. That is absolutely correct. But I think that -- I think I answered the question as asked relative to what he was asking on that part of the portfolio. And I did mention that we would see, continue to see some income from the alternative side.

Operator

[Operator Instructions] The next question comes from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a sort of a core business question and sort of app, I guess, sort of counts. I think it's going back, I don't know, it's probably easily a year, maybe as much as 3 years, sort of the E&S market broadly, and I'm talking about your core E&S business has enjoyed a real pickup in sort of shots at the basket, sort of submissions were up across the board for everyone in that segment. And I imagine in the earliest days, that was really a function of sort of competitive behavior, whether it was Lloyd's or other E&S companies sort of taking a different view towards underwriting and presenting an opportunity.

But of late, from what I understand, the E&S stamping office measures are also showing a continued pickup in submissions and, I guess, writings, I guess. Is it now really much more a function of the economy driving those volumes up further, and less so about sort of competitive underwriters retrenching or taking action that's prompting a pickup in opportunities?

Kevin James Rehnberg
President, CEO & Director

Yes. Look, Ron, that is a great question. And I think -- I'm just looking at our submissions here for those areas. And we were excluding contract and property because of our actions. See, 2 things happened. One is things flow into the E&S market or they flow into the regular market. And then producers respond to our appetite, so we've got to look at each instance like, wow, we've got one that's up 70%. Okay. Well, we really weren't doing much of that last year, right? So -- and there's others that are down 60%, but we're trying to get out of that business.

So when you look across the board in the quarter, we were up in low single digits across the board. But in March, it was a little bit higher than that. But in April, it's 16% across the board, right? Excluding the 2 areas that we're really trying to get out of.

And it's so -- the double-digit growth in the submission change is so high. It has to be the economy, right? Because it can't just be the -- it can't just be the insurance market. A lot of these businesses, we were in -- we were open. So I would say based on that, the economy is helping there as well.

Ronald David Bobman
Capital Returns Management, LLC

Right. Right. And presumably, your CFO isn't allowing isn't allowing you to pay the intermediaries anymore. So that isn't driving it.

Kevin James Rehnberg
President, CEO & Director

Yes, it's interesting. They -- the market sort of dictates what that amount is, but -- and it does vary by line. And there are multiple sources. So we're cognizant of all that. But the business flow in April is really encouraging.

Operator

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

Kevin James Rehnberg
President, CEO & Director

Thank you. I appreciate everyone's interest. The involvement that you're -- and support you're giving the company. So thanks to our shareholders, to our Wall Street community following us, to our employees and producers and anyone else supporting us. So I hope everyone has a good day. Look forward to catching up soon. Thanks.

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