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JRVR - Q1 2020 James River Group Holdings Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the James River Group Q1 2020 Earnings Call.

(Operator Instructions) As a reminder, this conference is being recorded.

I would now like to hand the conference over to your speaker today, Mr. Kevin Copeland, Head of Investor Relations. You may begin.

Kevin B. Copeland - *James River Group Holdings, Ltd. - SVP Finance & CIO*

Thank you, Operator. Good morning, everyone, and welcome to The James River Group First Quarter 2020 Earnings Conference Call. During the call, we will be making forward-looking statements. These statements are based on current beliefs, intentions, expectations, and assumptions that are subject to various risks and uncertainties, which may cause actual results to differ materially. For a discussion of such risks and uncertainties, please see the cautionary language regarding forward-looking statements in yesterday's earnings release and the Risk Factors sections of our most recent Form 10-K, Form 10-Qs and other reports and filings we make with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

I will now turn the call over to Adam Abram, Chairman and Chief Executive Officer of James River Group.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Thank you, Kevin. Good morning, everyone, and welcome to our first quarter conference call. I'm joined by Sarah Doran, our CFO, and Bob Myron, our President and COO. I'm going to kick the conversation off with comments about the quarter and observations about the potential effects, the combination of COVID-19 and a potential significant recession, might have on our company. Sarah's going to be talking about the quarter in depth, and then Bob, Sarah, and I will happily address questions at the end of Sarah's remarks.

First let me say, we were able to affect a smooth transition to remote working with very little disruption. All of our employees have been able to maintain connectivity and to continue processing business at the same or higher rates than prior to when we closed our offices. I believe we remain highly responsive to our producers and to claimants. Additionally, and very importantly, our internal communications remain strong, and we've

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been able to underwrite accounts with the same thoroughness as prior to leaving our offices. We all tip our hat to our IT teams, which have been proactive, efficient, and creative, and to our HR group as well, which has been very helpful in arranging and coordinating the dispersal of all of our people.

We are particularly grateful that, as of this moment, we know of no COVID-19 illnesses among our employees. Of course, many friends and associates around the country, and relatives of our colleagues, have been affected, and our hearts go out to everyone who is suffering from the physical, emotional, and financial effects of the virus.

Turning now to our financial results for the quarter, we believe our results reflect the strength of our franchise, as well as the early stages of disruption in the economy. Freed from the burden of the large commercial auto account that we had come to so -- that had come to so heavily influence our results, our E&S division grew 37% in core lines at rates incorporating 13 consecutive quarters of rate increases. In the most recent quarter, the rate increase was 12.9%, which was the second highest of all the sequential periods. The growth was spread across the entire E&S book, with 11 of our 12 E&S underwriting divisions reporting higher gross written premiums. Submissions in E&S grew 20% in the first quarter, and while we are aware of the warning signals for the general economy, we are pleased, and even a bit surprised, to see that our submissions in the month of April have exceeded those from April 2019, as have our gross written premiums in this segment, and rates remain very positive.

The runoff of the large commercial account is going well. We're settling commercial auto claims at a rapid pace for amounts that are consistent with our held reserves. One quarter removed from the cancellation of the account, we still receive claims from the period when we were on the risk. However, the pace of arisings is much reduced, and during the most recent quarter, open claims counts fell by more than 25%. Now, we do not expect that pace to continue, and I do not anticipate updating this statistic every quarter, but I offer it today as a marker that we are making good progress in closing these claims.

Our Specialty Admitted segment reported almost exactly the same gross written premiums this quarter as in the first quarter of last year, despite the fact that our largest fronting program, a workers' compensation account, was much reduced. The leadership of our Specialty Admitted unit has added new fronting programs, which are taking up the slack. In these fronting relationships, we tend to retain less risk in earned fees. Fee income generated by the Specialty Admitted unit increased 12% over the same period last year. Increasing fee income is a focus of our plan for this unit.

Our individual Workers' Compensation business held steady during the quarter, though we are now seating 70% of this premium and risk to others. We had been retaining 50% of the premium and risk. We took this step because, while the book is performing well, we see a downward trend in workers' compensation rates and anticipate that profits may come under pressure from this line of business.

Our Reinsurance segment wrote more gross written premium than it did in the first quarter of last year, as we added a fronted account in the second half of last year, which renewed this quarter. We do not retain any net exposure on that fronted account. Both net written and earned premium declined as compared to last year, which was our expectation. Nonetheless, our Casualty Re segment was behind our expectations for underwriting income in the month, due to relatively minor adverse reserve development from prior years, which was somewhat offset by a reduction in sliding-scale commissions that we would pay to others.

We earned an annualized 11.6% return on tangible equity during the quarter, and given the yields available on investments, this rate of return was satisfactory.

Our group combined ratio of 100.6% reflected a 91.9% combined ratio in E&S, a 107.4% combined ratio in Specialty Admitted, and a 99.4% combined ratio in our Reinsurance segment. The high combined ratio in the Specialty Admitted segment was driven by assumed losses from the NCCI pool, related to calendar year 2019, as well as an accrual for seated minimum premium for Reinsurance on a fronted program. Together, those 2 items added 7 points to the combined ratio in Specialty Admitted.

Somewhat ironically, the reduction in our Workers' Compensation premium by buying a larger quota share worked against us this quarter, as the assessment for the NCCI pool for 2019 was charged against a smaller amount of earned premium. We had less earned -- and as a consequence of that, we had less earned premium against which to absorb the NCCI charge, which was calculated on prior-year premium levels. I would expect

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our combined reissue across the group to decline as the year unfolds, and as I will discuss in a moment, this will focus -- this will require us to have a focus on expenses.

As we prepare -- first I'd like to say, though, and turn to the COVID-19 issue. As we prepare for the balance of the year, 3 matters are front of mind. Very few companies in the United States will be immune to the economic consequences of COVID-19 on our economy. And while the insurance industry is potentially materially exposed, we believe our company is better positioned than many property casualty insurers.

I'm going to take the risk of getting into more detail than our listeners may want at this stage, just in the interest of your being able to have a deep understanding of how our company is positioned in the world of COVID-19 and the exposures that might arise. First, the majority of our premium comes from the E&S market, where freedom of rate and form permit coverage to be safe to reflect the tougher nature of the risk covered under E&S surplus lines forms. Ninety-one percent of our earned premium in this quarter came from E&S accountants -- accounts written either in our E&S segment or our Reinsurance segment, which primarily insures E&S liability risks. Importantly, we do not write property -- primary property risk in our E&S or Reinsurance segments.

Business interruption insurance is typically introduced in primary property coverage. In our Excess Property book, our attachment point is usually above the business interruption limit purchased by the customer. The majority of our excess property forms include an organic pathogen exclusion, regardless of any physical loss or any loss of use. As an excess property writer, we also benefit from any exclusions that may be contained in the primary policy on top of which we sit.

In our liability policy forms, we also have strict exclusions for viral contamination and communicable diseases. We do expect that there will be a raft of claims, as many policyholders are being advised to file claims as a matter of routine. This is not unusual when a new cause of loss arises and is a routine part of how the market has generally addressed a new cause of loss. One common claim we anticipate being registered for is for general liability -- for general liability policies is for loss of income due to a business closing down. We've received a handful of these claims already. While this might be a legitimate cause of loss for a business interruption policy, it is not a basis for a claim under a standard liability forms, and we do not anticipate these claims will progress very far.

We also expect claims from patrons of insured businesses, in which the claimant will maintain they were exposed to COVID-19 insured business. Many of these claims may be properly denied, based on our absolute pollution and communicable disease exclusions, and other relevant policy terms and conditions. In other cases, we think it generally unlikely that a claimant could reasonably demonstrate they contracted COVID-19 when they were in a particular location, as opposed to on a bus or from street or some other location.

Our Allied Health book may have some exposures, though we only have 2 claims reported from this book at the beginning of this week, neither of which appear to be for covered events. However, 96.8% of our Allied Health policies include a communicable disease exclusion.

Our Workers' Compensation book is heavily reinsured, as I mentioned earlier, and only 2 classes within the book have obvious potential exposure for COVID-19. About 2.5%, 2.5% of our Workers' Compensation policies are written for retirement or nursing homes. Remember, we only insure the workers in these small facilities, not the residents. We also have a book of home health aides, where we believe we have limited exposure, since our aides are generally visiting patients who can't leave their homes, and therefore, have a very limited chance of contracting -- contraction of COVID during work. But net of reinsurance, we are only exposed to $300,000 per claim on our individual risk Workers' Compensation business.

In general, other than claims arising from our individual Worker's Compensation book as described above, which is currently 70% reinsured, we have little exposure from the book where we provide front paper. As a reminder, we generally retain about 10% of the risk in our fronted book. Within the specific programs, the risk is either low, given the nature of the program, and where business interruption is a risk, the majority of those policies require a physical loss and were written with a virus exclusion.

Finally, as we are heavy users of external reinsurance, we have reviewed our treaties and believe they sufficiently cover us in a follow-the-fortunes format, meaning that we do not anticipate being without the protection to the extent we do or may have exposure to COVID-related risk.

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We have one fully-fronted national property program. All policies in that program contain a virus exclusion. We have a fully-fronted program related to cannabis. All policies require a physical loss and contain multiple virus exclusions. We have a program for auto dealerships. Given closures there and the nature of the risk, we think the exposure is low. Our retention is also minimal -- $100,000 for property and $125,000 for casualty.

Finally, our largest fronted program is a California workers' compensation program in which the dominant class is contractors. We don't think this class has particularly heavy exposure to COVID claims, and the program is heavily reinsured whereby, net of reinsurance, our maximum exposure per claim is $110,000.

As of early this week, we had received about 200 total claims associated with this scourge. While we take every claim seriously and fully, fully embrace our duty to pay all claims owed, the claims received to date reinforce our belief that our approach to underwriting insulates us from the worst of this pandemic.

Turning now from direct exposure on insurance from COVID-19, I'd like to turn to the broader implications of the coronavirus on the economy and our business. One unanticipated benefit of the shelter-in-place orders is that it has lowered, reduced activity and lowered the number of accidents we might usually expect to see. Loss reports are significantly down. This month, for example, we've received 30% fewer claims than in April a year ago in both our E&S and Specialty Admitted segments. This is in spite of having a larger book of business as compared to a year ago, and despite the addition of some COVID-related claims this year. However, if the economy remains shut down, we can also anticipate lower premium volume going forward. We did not experience that in the first quarter. Even in March and April, when shelter-in-place orders were in effect across much -- most of the country, our companies enjoyed strong premium growth at attractive rates. Nevertheless, common sense leads us to anticipate and prepare for a significant decline in workers' compensation and general liability accounts, as companies have less business or fold. About 10% of our E&S premium covers bars, restaurants, and the like.

One final word about premium expectations. In both our E&S and Specialty Admitted segments, we write accounts for small and midsize businesses. Sadly, many of these businesses may not survive a deep recession. However, these are the type of businesses that are the first to resume, as entrepreneurs who shutter their business in a deep recession restart those enterprises as soon as the recovery permits. When they do resume business, these entrepreneurs' coverage will fall in the E&S market, and they will require workers' compensation insurance. Our companies are well positioned to be early beneficiaries of a recovery. This is what we discovered in 2009 and 2010, following the financial crisis.

In the interim, we recognize that a recession will challenge all companies to maintain current premium levels. We recognize the challenge our expense ratio poses to our profitability, and we're actively working to rein in expenses over the balance of the year. Consequently, we're focused on this expense reduction, and we expect our full-year expense ratio to fall in the low 30% range. With lower premiums and lower investment yields than we could have expected or would have expected 6 weeks ago, the need to adjust expenses is more acute. Our estimate is that operating return on average tangible equity for 2020 will likely be in the high single-digit to low double-digit range.

And with that, I'd like to turn the call over to Sarah.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Thanks, Adam. Let me highlight a few of the financial points from the quarter. Last night, we reported first quarter operating earnings of $0.50 per share and adjusted -- annualized adjusted net operating return on average tangible equity of 11.6%. While net earned premium declined due to the October 2019 cancellation of what was formerly our largest account, it grew about 48% in our core E&S business as compared to the first quarter of 2019, and otherwise held steady throughout the balance of the group.

Let me jump right into investments. Unrealized losses on the portfolio drove our net loss for the quarter. For the last 11 years, we have been invested in a diverse portfolio of externally managed senior secured bank loans, representing over 120 credits, with no individual position larger than $4 million in market value. The portfolio does not have any meaningful sector or credit concentration, no exposure to the oil and gas sector, and has provided a meaningful return and attractive contribution to our investment portfolio. We have approximately $10 million of common equity risk outside of that portfolio, but -- or in our entire investment portfolio, and have chosen to take measured risk here, given the attractive risk return profile.

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Effective January 1, 2020, new accounting rules applied addressing current expected credit losses, otherwise known as CECL. With these new rules, we elected to report our bank loan portfolio at fair value, with changes reported through the income statement but excluded from operating earnings. Previously, the portfolio had been accounted for at amortized cost net of an allowance for any credit losses.

Given the market volatility this quarter, this portfolio especially experienced greater volatility than it has in the 11 years that we have been invested in this asset class. It had unrealized losses of $43.9 million for the quarter. As of Tuesday's close, though, the portfolio had recovered meaningfully, with $6.4 million of additional value coming to it since quarter-end. Following the first quarter, we made the decision to meaningfully reduce our exposure to bank loans by selling into the rally in this asset class. While we like the asset class and we will remain invested in bank loans, we are reducing our exposure to the class in order to tamp down volatility.

Apart from the bank loan portfolio, it's worth noting that our fixed income portfolio has also improved significantly since quarter-end. The portfolio was in an unrealized gain position of $29.8 million at quarter-end, and through this Tuesday, the unrealized gain position grew an additional $21 million. Our investment-grade portfolio does not have any material exposure to the hospitality or the oil and gas sectors.

It's worth a reminder that the overwhelming majority of our investment portfolio is reported in the quarter it occurs. This quarter, we earned $20.8 million in net investment income, an increase of 7% from the prior-year quarter. The increase largely resulted from the October 2019 addition of what is now $1.1 billion of restricted cash that was previously held in a collateral trust off balance sheet. These funds are now invested in short-term securities. Given the severe decline in short-term rates during the quarter, we would expect that these assets will generate less investment income in future quarters. Also, as mentioned last quarter, we continue to return balances to our former client when the account is determined to be over-collateralized, which we expect to continue for the next few years as the runoff runs its course.

Finally, moving on from investments, this quarter we posted a loss ratio of 66.4% and an accident year loss ratio of 65.8%. The decline from a 73.1% accident year loss ratio in the first quarter of 2019 was also due to the cancellation of the large commercial auto account, which had been written at a much higher loss ratio than the rest of our small account, casualty-focused, core E&S business. We have attained attractive renewal rate increases in core E&S each quarter for over 2 years now, as Adam reported, and reported losses have remained benign for multiple quarters in that book. Core E&S now makes up about 95% of gross written premiums in the E&S segment, as compared to about half of the segment in the first quarter of last year.

As Adam mentioned, we have received a handful of COVID-related claims, but given our policies and exclusions, which he went through in detail, we did not put up an additional indemnity estimate related to COVID for the quarter.

We did not experience any material reserve development in our Commercial Auto line. The runoff of what was formerly our largest account is performing well within our expectations. While we continue to receive new claims for events that occurred prior to December 31, 2019, when we cancelled the account, we are pleased with the pace of runoff. The number of reported claims has slowed, and we are successfully making claims for fair value.

At the end of the first quarter, open claims for all years of the account represented 3.5% of the total reported claims for the account. I reported to you last quarter that at the end of last quarter, all claims -- open claims for all years of the account then represented 5.2% of reported claims, and as of the fourth quarter of 2018, open claims for all years of the account represented 7.2% of all reported claims. So, the decrease is good, as we move through the runoff block.

Of our approximately $1.35 billion of total, groupwide net loss reserves on balance sheet at quarter-end, approximately $350 million of this supports the runoff block of business, and it remains close to evenly split between case and occurred-but-not-reported reserves.

We had adverse development of about $1.8 million in our Casualty Reinsurance book, but a portion of this was offset by sliding-scale commissions, which come through the expense ratio. A majority of the development related to treaties we no longer write, and we also had about $1 million of favorable reserve development from our individual risk Workers' Compensation book.

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Moving to expenses, the expense ratio increased to 34.2% this quarter, as compared to 22.6% in the first quarter of last year. As discussed in prior quarters, the cancellation of the large commercial auto account had an impact on both accident-year losses and expenses, as it was written with very commission expenses. While not reflected in our first quarter results, as Adam mentioned, we are actively reducing our expenses and expect to meaningfully reduce costs through the remainder of the year.

Lastly -- and I promise, I'm almost finished -- I will note that we drew down most of our unsecured bank facility capacity in mid-March, prior to the start of the Federal Reserve interventions. We did this purely from a precautionary stance, given where we saw broader market volatility at that time in the treasury markets. The $119 million of additional drawn capacity remains on our balance sheet as a precautionary measure. Late last year, we had expanded our syndicated facility and renewed it for 5 years. Our balance sheet liquidity is strong and credit metrics within the parameters of rating agencies and other counterparties. Our thoughtful debt-to-capital mix utilizes a number of hybrid issuances, and we do not have any maturities until 2034.

And with that, turn the call back to Adam.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Thank you, Sarah. And, operator, let's take questions, if there are any.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Mark Hughes from SunTrust.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Adam, I appreciate all the detail on your policy language. You had mentioned the April, I think you said the submissions were up in April, gross written premium was up year over year. I think later on, you talked about the strong growth in premium in March and April. Would you apply the strong adjective to April, or any way to frame up what you're seeing in April?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

You know, I really don't want to front run this too much, Mark. I just would say that, you know, honestly, as you look around the economy and you think about the number of people who are unemployed, and really disturbingly so -- just, Sarah and Bob and I were talking yesterday about thinking about airports for example, and how many people, you know, are out of work there -- we would have anticipated a much -- we would have anticipated a much faster reversal in premium. But that's not what we've seen so far, as I said, and I don't want to get into too much detail about this. But, you know, submissions are up, and the April premium was more than last year's April premium. I do not anticipate that continuing for the year.

We are thinking about the rest of the year as having good rate, and maintaining the positive rate structure that we have and that we've earned over time. Because if you think about the losses that may be coming into the insurance industry, difficulties some companies are having, we know, with placing reinsurance, et cetera, and just the general capacity crunch, we think rates will remain good. But we think that the economy is weak, and so that will be a balance, and we're going to manage -- we're going to manage to that and get to that high single-digit, low double-digit ROT.

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Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Anything you can say about what you've seen so far in terms of cancellations or requests for…

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Cancellations have not been a -- yes, cancellations have not been a factor yet, but I would anticipate that as -- I would anticipate they could in the industry become a factor, and, you know, we have thought about that ourselves in terms of how we recast the rest of the year.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then, in the E&S book, what would you anticipate for the seated premium ratio? I think you've been, as I understand it, writing more excess casualty, you've seated more of that premium. Would we assume that will hold steady, similar to Q1?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

I would think, Mark -- I know this is a question we had last quarter, too -- this quarter, you know, in the E&S book, but it's always difficult with mix, but one of the strongest signs of growth we had in that book was our Excess Casualty line, which almost -- which I think more than doubled from the first quarter of last year, so that had an outsized effect in pushing up the seated ratio. I would expect that we would see, you know -- we would have a seat between kind of 20% to 30% of that book, which is pretty consistent with where we've been, perhaps a little bit lighter than what you saw this quarter.

Operator

Your next question comes from the line of Matt Carletti from JMP.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD and Senior Analyst*

Adam, I was hoping you might be able to give us a little color on just what your -- a little more on the commercial auto runoff book. And what I'm thinking is, we've heard -- at least I've heard in the industry generally on open claims across a number of lines -- workers' comp, medical malpractice, so on -- that already, there is some impact from the recession in the sense that settlements being maybe a little lower than expected. Some people have a need for cash now versus, you know, holding out for a bigger number. Just curious kind of if you're seeing any of that, if that's playing into kind of the settlement values where you're closing these claims out at, or if not, if that's something you would expect as we move forward.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

I'm going to pitch to Bob in just a second on that issue, but before that, let me just say, look, we are and we always have been committed to settling each claim at fair value for the claimant. And I think it's important to say that, because I would not want anybody to think that we are, you know, just somehow taking advantage of a situation. Having said that, and I did say this, that I'm not going to keep us updated on this, but through Bob's leadership and our claims team's leadership, we've reduced the number of outstanding claims from that commercial auto account by 25% during the period. Bob, do you want to comment further?

Robert Patrick Myron - *James River Group Holdings, Ltd. - President, COO & Director*

Yes, sure, and good morning, Matt. Yes, we're definitely seeing opportunities, you know, more opportunities to settle and some more willingness to settle on the other side of these open claims. And, you know, that starts with all the court closures and -- you know, some of which have dates in which they may reopen, and some of which do not. And you know, so some cases that maybe were scheduled to go to trial or arbitration have

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been -- the dates have been kicked way out, or there is no date that is coming up. And so, you know, as Adam said, we've continued to focus on working to settle claims at fair value, but definitely have been a lot more opportunities to settle claims, I think, in the -- given the uncertainty around when there might be trials and arbitrations, as well as the state of economy and, you know, all of the parties on the other side of the transaction and sort of their willingness and/or potential need to sort of get, you know, get can now versus cash clatter.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD and Senior Analyst*

Okay, great, thank you. And I want to quick just revisit a number with Sarah. In your comments on the investment portfolio, I caught the, I think it was $21 million kind of rebound in fixed income. Can you repeat what you said on the bank loans? I caught $6.4 million, but is that the rebound from the March 31 level, or did I catch that number right?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

That's right, Matt. You got that right. Unrealized -- that's right, yep.

Operator

Your next question comes from the line of Randy Binner from B. Riley.

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

Just a couple follow-ups, and I may have missed some of this because I came in late. But I guess, just Adam, you said that you had bar and tavern risk of 10% of the book. Were there other categories you outlined that are kind of higher exposure to the economic shutdown?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Matt, I'm sorry, I missed the first part of your question. It just, it faded out for me. Can you say again?

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

Yes, it's Randy Binner from B. Riley, and --

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

I'm sorry, Randy.

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

-- beyond bar and tavern at 10% --

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Although, yes, bars, restaurants, and taverns are 10% of our book in the E&S -- in the E&S segment.

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Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

Are there other kind of acute categories, like, that are exposed to the economic shutdown that you outlined?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Sure. Yes, yes, of course. You know, we write small and medium size businesses. We write contractors, right? We -- for example, contractors are a meaningful class for us, and there may be less work for them.

Look, I think if -- we would expect, we would anticipate that the premium level that we enjoyed in the -- the increase in premium level we enjoyed in the first quarter will abate in the second, third, and fourth quarters. I just don't think we're going to be able to maintain that rate of growth, even though, you know, all the way through March, and as I indicated, just kind of gentle indication that April was also very positive, but we anticipate that will abate, and abate significantly. And so, what -- you know, we've recast our expenses, we've recast our forecast, and we think we'll get, at the end of the day, to a high single-digit, low double-digit return on tangible equity.

The one thing I would say is that, you know, while we go down -- E&S recovers quickly. That is to say, it's an early recovery -- recoverer when you come out of a recession in the E&S industry, because all new -- you know, basically, most new businesses and many small businesses, especially if they do come back into the E&S fold. So, I don't know whether this is an L, a U, or whatever it is. You know, we don't have a crystal ball with regard to that. But, you know, I think we'll do fine this year, and if we start a recovery, that will be a -- we will be the first to experience positive results from a recovery.

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Hey, Randy, I just want to clarify, because I think we had a hard time hearing the beginning of your question. I apologize. But the 10% that Adam referenced in his script was bars, restaurants, taverns, hotels, motels, everything that we think about being most impacted by the shelter-in-place right now. I just wanted to make sure we're --

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Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Thank you. That's an important addition, right. It's broader than just bars, restaurants, and taverns.

Randolph Binner - *B. Riley FBR, Inc., Research Division - Analyst*

Thank you. Got it. And then, just one on the Uber runoff, the 3% figures there that you shared. That number is -- of, you know, kind of open claims as a percent of all reported claims. You know, now that you've not renewed that book, can there be further claims that come out of the book? You know, thinking, is this the -- is that open, you know, percent of the all reported basically only going to go down? And if there is any tail left in that runoff, can you outline how that may be affected by less driving activity?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Sure, well, it's a couple things, and then I'm happy -- Bob, would you like to?

Robert Patrick Myron - *James River Group Holdings, Ltd. - President, COO & Director*

Yes, so Randy, I don't think we're going to get a benefit from reduced driving activity, because the way the policy works is, you know, we don't have any exposure for -- the way the cutoff worked, we don't have any exposure for any accidents or activity, you know, after December 31st. There

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isn't a tail in earned premium, and therefore, sort of a tail of the exposure. So any new claims that we would be getting reported would be related to, you know, accidents that happened December 31st and prior, so that's the first point.

You know, we have still seen some level of claim activity from, you know, 2000 period, so to speak. But it's really slowing down to a trickle, given what I just described previously, so I would fully expect that that percentage of claims outstanding relative to total claims received is going to continue to drop.

Operator

Your next question comes from the line of Meyer Shields from KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Is there any way that we can relate the I guess restricted cash on the balance sheet to the outstanding claim count for the terminated commercial auto account?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes, you know, the way that I think about it, Meyer, is it's not necessarily a binary relationship. I do think about that runoff block of business, and really, more so the assets that we have on balance sheet being around for about, call it 2 years, and it will decline. It's declined, you know, over $100 million over the course of a quarter, so I would suspect that that is -- that's going to be a lumpy pace, because it's going to depend on collateral needs and other factors. But, you know, we are currently thinking that that collateral likely winds down with the runoff block over about 2 years.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay, that's perfect. That's helpful. When we anticipate slowing premium growth, should we -- I'm trying to think of the best way to phrase this -- should we assume that the -- any mid-policy term adjustments to exposure units for premium written in the first quarter will be -- there will be a negative associated with that in coming quarters?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

I don't -- there are differences across our book, but basically for GL, most of that premium, unless there's a very early cancellation, will stay with us and earn through. So I think the biggest impact on premium would be if there is a significant decline in new written policies, then I think you'd see a decline. But generally -- and there are formulas for each line of business and different -- and there are different arrangements, but generally, we will be holding on and will have earned most of the premium we've reported to you.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay, that is very helpful. One technical question, I guess, for Sarah. The seated minimum premium accrual within Specialty Admitted, was that a reduction to earned premium, or was that booked as a loss?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

It's a reduction to earned premium.

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Operator

Your next question comes from the line of Seth Rosenberg from UBS.

Seth A. Rosenberg - *UBS Investment Bank, Research Division - Associate Director & Equity Research Associate of Property Casualty Insurance*

I'm just stepping in for Brian here. I guess first, obviously, the color was great on the COVID risk exposures as we see them now. One follow-up there. I'm thinking about some of the legislation that's being proposed or implemented around presumption clauses, particularly for workers' comp. How might you think about the potential incremental exposure there? You know, you described contractors in California. Is there any risk of them being considered front-line employees, you know, of that nature?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Well, I think this, that anybody who ever tells you there's no risk probably, you know, doesn't have a lot of experience in the insurance business. But we're tracking this very carefully, and I will tell you that in the states that we've paid most attention to because of concentration of premium, the initial proposals seem to be moderating pretty quickly. That is to say, there was a first suggestion of a very automatic or very high level of -- a very high burden on the insurance companies to assume and take these risks, but that's quickly being reduced, as those thoughts are going through the legislature and others are weighing in. So, I do not -- generally, for example, I would say that contractors are not a highly exposed class for COVID-19 at the current time, and you know, we feel comfortable with those risks.

The other thing I'd point out to you is that for us, for example, in workers' comp, our retention is substantially lower today than it was a year ago, and it was lowered in advance of the COVID-19, you know, eruption.

Seth A. Rosenberg - *UBS Investment Bank, Research Division - Associate Director & Equity Research Associate of Property Casualty Insurance*

Got it. Okay, that's helpful. And then, I'm not sure the fair way to phrase this question, but you described that there's a lot of -- or, so far, have been some claims that have come in that just clearly aren't covered, based on the terms of the contract. But could you maybe give a sense, what's the cost associated with reviewing, denying, potentially litigating claims that aren't valid, just on average?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Well, I don't think there's an average cost that I can quote you for that, but I will say that many of these will be -- look, we for the last many years have been handling thousands and thousands of claims which needed to be individually assessed and evaluated as for coverage. And it was complicated, because the coverage was different by state. They were making complex claims that had to be -- where facts had to be investigated, so this is nothing new from our point of view. Now, the very strong provisions of our contracts will allow us to quickly screen the COVID-19 claims that may emerge. I mean, for example, a COVID-19 claim on one of our general liability policies, which is -- you know, the majority of our policies issued would be general liability policies. And our pathogen and viral and communicable disease exclusions there I think will make, in general -- each case has to be investigated and the facts have to be understood, but I think it'll make it a fast process for those.

Seth A. Rosenberg - *UBS Investment Bank, Research Division - Associate Director & Equity Research Associate of Property Casualty Insurance*

Okay, that's very helpful. Sarah, just one last one for you. I guess as we're thinking about going forward in E&S, it was helpful commentary that 95% of the segment is core now, versus 50% a year ago. But could you maybe give us comparable E&S expense and the loss ratios for the next 3 quarters from '19, just, you know, so we can think about and track the performance there?

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Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes, I mean, I think as we mentioned on the call, Seth, it's a good question, we are working to get our expense ratio down. We haven't seen that show up in the first quarter. I think you'll see that in the next 3 quarters as we do that. It needs to happen throughout the business, and you'll see it probably mostly in E&S, just because it's our largest business, therefore has the largest [sense] of expenses. So, you know, I expect the expense ratio in E&S to go down a couple points, just because that's mathematically the only way that we get our overall expense ratio to go down to the low 30s, so I think that's pretty reasonable.

I also think the loss ratio is -- I expect that to be about where it was this quarter, so I am not -- you know, that will shift a little bit on any given quarter due to mix, but I'm not otherwise anticipating a big delta to the expense ratio in E&S over the course of the year. I am anticipating a reduction in the expense ratio.

Operator

Your next question comes from the line of Mark Hughes from SunTrust.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Sarah, how much do you think investment income will be impacted by the lower short-term rates when we think about the 2Q, for instance? You know, what's the delta on that?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

Yes, it's a great question, Mark. I think, you know, at the beginning of the year, the returns that we were getting on that portfolio, given where the treasury market was, were in excess of, call is 125, 150 basis points, and now the short end of the curve is kind of sub-50 basis points. So, you know, just given our balances there, that's going to have an impact. I talked about that we're actively looking to sell out of a piece of the bank loan portfolio as well, so I think that's going to have an impact. So, I expect that investment income would, just given on the face of those 2 comments, would decline over the course of the year. I don't typically give a guidance number around NII, but those are the 2 pieces that I'd think about it.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Okay. And then, when you think about the GL pricing, and you've gone through a period here where there's very little revenue in some of these businesses, and presumably, GL pricing is influenced by revenue, you make those underwriting and pricing in circumstances like this, do you look at the former run rate? How do you approach that?

Sarah Casey Doran - *James River Group Holdings, Ltd. - CFO*

In GL pricing, we certainly look at the reported losses and how the book is developing, and then we just look at the rates and opportunities, and kind of price those on an individualized basis, depending on what's coming at us. I'm not sure if I missed the part of your call. I was just looking for something else, and I think I might have missed the first part of your question.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

The question was really more at a kind of a policy-specific level, how you would price general liability policies if you're looking at someone who's not really been operating for a couple of months, let's say. Does that influence your pricing, or do you just kind of assume they return to the former run rate?

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Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

So, pricing, there are 2 parts to this. So, you're assuming someone -- and I want to make sure that I'm answering your question. So, someone's been out of business, let's say. Let's say they folded their business, Mark. I think that may be a premise of your question.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Yes.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

And now they're restarting a business. Is that right?

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Sure. Yes.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Yes, so typically, they're going to fill out a new application. We certainly, if we've seen them before or they provide the information, would be aware of what their business has been. There's a minimum charge for the limit, and then typically, you know, we make an estimate based on what they tell us they're going to do. There's a minimum charge to the limit that's 100% earned, and at the end of that policy term, the audit, in general, can only increase their premium, not decrease it. Am I answering your question?

Robert Patrick Myron - *James River Group Holdings, Ltd. - President, COO & Director*

Let me just layer in a thought, Mark. And all of that pricing is going to be based upon, you know, some measure of unit exposure, like their expected revenues, for example, right? So, and we're going to have a rate for that, based upon what is in the submission for their expected revenues going forward. So I think that we may see lower revenue numbers from some of those insureds as these policies come in, you know, new or renewal, but I don't think that it's going to impact the price per unit of exposure that we're going to be charging. I think that there still is positive momentum from a rate perspective in that regard. And you know, there's a few factors at work there, but one of the things certainly is that, you know, as yields on investments continue to go down, I think that that is obviously a positive for insurance pricing, because you've got to make money on underwriting, because you're not going to make lot on your investment income float.

And I think another -- many of our -- still, some meaningful number of our divisions and classes, there is a shortage of capacity in the industry, certainly in excess casualty, certainly in habitational risks within our general casualty division, we are still seeing very, very strong demand for our product and, you know, because of business still coming in from the [admitted] market or capital departing this area or bad underlying loss experience in the recent past.

Operator

(Operator Instructions) You have a follow-up question from Meyer Shields from KBW.

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Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Just a quick question for Adam. One of the theories that we've heard is that, as small companies are unfortunately put out of business, there's an increased likelihood of D&O claims against them from other companies with whom they've been doing business. Can you talk about that as a potential exposure to the recession?

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

You know, we have not seen -- I have not seen, in past recessions -- and we've insured many businesses that have gone out of business over multiple years -- I've not seen a lot of D&O claims registered against, you know, the businesses that we write GL accounts for. That's just not been a phenomenon that has really -- I've seen that -- where we've seen that. You know, our average premium is $23,000. These are not generally public companies. You know, these are privately held enterprises, where the owners and directors are often the same people.

Robert Patrick Myron - *James River Group Holdings, Ltd. - President, COO & Director*

Yes, and I just want to add, you know, our professional liability book across the group is really pretty small, and in E&S, it's really an E&O book for smaller, private companies -- you know, lawyers, architects, engineers, that type of thing. And we really haven't seen a lot of growth there. It's a reasonably small book of business. And so, you may be asking more from an industry perspective about this. I think our exposure in that regard is really, really quite small.

Operator

I'm showing no further questions at this time. I would like to turn the call back to Adam Abram, Chairman and Chief Executive Officer.

Jonathan Adam Abram - *James River Group Holdings, Ltd. - Chairman & CEO*

Thank you, operator, and thank you everybody who's joined and expresses and interest and does work following our company. We very much enjoy the dialogue and appreciate your interest and your help in making our company (inaudible). We look forward to speaking to you again, and hopefully soon being able to join you in person at conferences, when it's safe to do so. And we hope very much that you and all of your colleagues and your families remain safe. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and have a wonderful day. You may all disconnect.

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