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

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

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**Matthew John Carletti** *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

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## PRESENTATION

### Operator

Thank you for standing by, and welcome to the third quarter of James River Group earnings call. (Operator Instructions)

It is now my pleasure to turn the call over to our first speaker for today, Mr. Kevin Copeland, Head of Investor Relations. Sir, you may begin.

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

Thank you, operator. Good morning, everyone. And welcome to the James River Group third 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 section 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.

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Thanks very much, Kevin. As Kevin said, I'm here with Sarah Doran, who's our Chief Financial Officer; and Bob Myron, our Chief Operating Officer, and we're looking forward to answering your questions in a minute. Before we do that, we'd like to set the stage with a few observations about our quarter and about market conditions in general.

This is one of the most favorable markets I've witnessed in 30 years. The E&S business, which is at the core of our franchise is growing with more policies in force substantially higher rates and lower loss cost. We wrote 28% more E&S premium this quarter than in the prior year. New submissions were up by 9% in E&S and renewal submissions were up 27%.

The increase in renewal submissions is an indication that standard companies continue to retrench and are not seeking to move accounts from the E&S market to the standard market. We're selective underwriters and 8 of our 12 E&S underwriting divisions grew. Trailing 12-month Core E&S premium is \$615 million, a 91% increase over the same period just 2 years ago.

We continue to be able to get more rate per unit of exposure. This last quarter was the 15th quarter in a row, we've reported significant rate increases. In 8 of these 15 quarters, renewal rate increases on our E&S business have been greater than 5%. In every quarter this year, rates were up over 10%, and this quarter, rates were up 12.8%. An already hard market continues to gain strength.

Year-to-date, our policies in force have increased by 26%. And while we're growing both premium and policy, claims counts in Core E&S are down 15% this quarter compared to 2019. In the most recent months, claims frequency has been dropping rather precipitously. New claims count within E&S were down 18% in April, 31% in May, 15% in June, 11% in July, 23% in August and 9% in September and 32% through mid-October.

This drop in claims count is all the more notable as we have more policies in force than in prior years and earned premium from Core E&S is increasing. Core E&S claims counts per \$1 million in earned premium through the third quarter are 30% lower than the 3-year average between 2017 and 2019. So obviously, these trends bode very well for the future.

Our fully developed core E&S loss and LAE ratio from 2003 through 2017 is 54.4%. We're carrying the 2018 through 2020 years at a 65.5% loss in LAE ratio. Our calendar year paid and reported loss ratios in Core E&S is 24% on a [0.5%] reported through 3 quarters. These are among the lowest reported and paid ratios since 2005.

Our expense ratio is 24.8% this quarter, down from over 30% in the first quarter. Sarah will speak in a moment about -- more about this positive trend in expenses. So we reported a combined ratio of 85.2% for the E&S division after adding approximately \$10 million to reserves for the runoff of the large commercial account canceled at the end of last year. We raised reserves in the runoff book because in September, we observed a spike in medical cost.

This unexpected rise in cost seems to be the result of people with non-life-threatening injuries, having postponed surgeries and inpatient treatments due to concerns about being in a hospital or a surgical clinic during the pandemic. We continue to close claims rapidly in this runoff book. And as of quarter end, we've closed slightly more than half the claims outstanding at December 31, 2019.

And at this point, we have roughly 2% of the open claims that we ever received from the commercial auto accounts. So this is moving out rapidly. Our growing -- our rapidly growing and very well-priced book of E&S premium can absorb spikes in the runoff costs while still delivering very strong returns to shareholders and maintaining our 65.5% loss in LAE ratio from 2018 to 2020.

In this quarter, we were particularly glad that our focus on casualty business allowed us to avoid significant exposure to, or losses from, the very difficult hurricane season work or from COVID-19 losses. At the same time, the large industry losses from these events will tend to reinforce the attractive pricing we're benefiting from.

Our specialty admitted segment is also gaining traction. Third quarter gross written premiums were 12.1% higher than a year ago. We've added 8 new programs within the segment over the course of 2020. Three of these new programs have already added \$15.4 million in gross premiums through 3 quarters. And many others are just beginning to produce premiums and fee income, and we enjoyed a 22.8% increase in fee income in the first 3 quarters.

Our net retention of gross written premiums in our specialty admitted segment is under 15%. We're developing partnerships in which while we retain some risk to align our interest with reinsurers, we're focused on earning fee income.

Year-to-date, our return on equity in the specialty admitted segment is in the low double digits. Having developed our sea legs in this division, we're directing our marketing efforts towards larger fronting programs, we believe the margins from this business, already good, can still improve.

Within the specialty admitted segment, we've reduced net written premiums from workers' compensation policies by about 1/3 as we feel pricing in that area of the market is a little soft. In our Reinsurance Division, we wrote \$91 million in gross written premiums through 9 months, which was a 21% reduction compared to last year. Some of that reduction is only a timing difference as the renewal moved from the third to the fourth quarter.

The reinsurance segment has reported 102.1% combined ratio for the quarter. Pricing in this segment is improving, and our internal study show renewal rate increases, including changes in terms and conditions of 4.3%, 6.4%, and 8.7% in 2018, 2019 and year-to-date 2020, respectively.

I'd now like to address some important and very good news for our company. We announced last evening that Frank D'Orazio, formerly the Chief Operating Officer and Chief of Staff to the CEO with Allied World, will become CEO of James River next Week. Some of you will recall that I retired previously and returned in August of 2019.

Our company is in a very good position, thanks to the hard work of all my colleagues. We are in a rising market, and it really seemed to me that this was a good time to introduce a new CEO who can make the transition when we are enjoying great momentum.

The board conducted a very broad search. And attracted many highly qualified candidates. I'm very pleased Frank will be taking the helm. I suspect some of you may all -- on this call may already know him. He has tremendous depth as an executive, having run large profitable insurance operations in the U.S. and from Bermuda.

His management style and experience fit our culture. He's an underwriter by training, and he has a long history of building successful underwriting businesses. He is keenly aware of the opportunity the hard market presents.

Frank and our team have already begun to work on the transition. I will remain as non-executive Chair of the Board and look forward to supporting Frank and his executive team. I have no doubt we are in very good hands. I anticipate over time under Frank's leadership and with the support of the terrific James River team, we will become even more profitable and demonstrate more capabilities than we do today.

And with that, let me turn the call over to Sarah.

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**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 -- third quarter operating earnings of \$0.56 per share and year-to-date annualized adjusted net operating return on average tangible equity of 11.9%. As Adam said, market conditions are very attractive for our business. And while early still, revenue has exceeded our early estimates at the start of the pandemic.

First, expenses. Our expense ratio decreased to 24.8% this quarter as compared to 34.2% in the first quarter of this year and 29.2% year-to-date. We mentioned on prior calls that we've been working to reduce expenses and gain efficiency. The ratio also benefited from strong growth in lines where we cede significant premium for attractive ceding commissions such as excess casualty in our E&S segment.

Gross premiums written in excess casualty have increased over 85% year-to-date from the third quarter of 2019, as rate increases in that line have been either the highest or among the highest across our E&S book. As it's our largest line of business in E&S, it's also pushed the retention ratio in that segment down to 60% this quarter. The expense ratio has also benefited from the offset of sliding scale commissions in our casualty reinsurance portfolio this quarter. We expect that our expense ratio for the full year will be close to our year-to-date figure.

Moving on, this quarter, we posted a loss ratio of 69.4% and accident year loss ratio of 66.6%, largely in line with the balance of this year, despite powerful rate increases, low loss emergence and meaningfully reduced claims frequency. As Adam highlighted, E&S renewal rate increases were 12.8% this quarter, and have increased 30% cumulatively since the start of 2017.

Reported losses have remained benign for multiple quarters falling again this quarter. Core E&S continues to make up approximately 75% of the company's net written premiums and close to half of our \$1.3 billion of net reserves. As Adam mentioned, we added \$10 million of reserves to our large commercial auto account in runoff this quarter, but had a similar level of reserve takedowns from our core E&S book, which continues to run very well. The reserve increase relates to the 2017 and 2018 years.

We have continued to close claims rapidly on this block, closing 14% this quarter and are receiving very few new claims at this point, almost a year into the runoff. Through 9 months of the year, as Adam said, open claims for all years of the account represented 1.7% of total reported claims for the account.

At the end of the fourth quarter of 2019, by comparison, open claims for all years of the account represented 5.2% of reported claims. Of our approximately \$1.3 billion of total group-wide net loss reserves at quarter end, approximately \$300 million supports the runoff block of business.

This quarter, we had \$12.9 million of favorable development from our core E&S business, emanating from the years 2019 and prior. As Adam said, we continue to hold the most recent 3 years of our Core E&S business at a loss ratio of [65.5%]. We had adverse development of about \$6.2 million in our casualty reinsurance book, but \$2.9 million of this was offset by sliding scale commission adjustments, which come through the expense ratio.

The development was concentrated in a few treaties related to general liability and non-standard in commercial auto business, much of which we no longer write. We also had \$2 million of favorable development in our individual risk workers' compensation business within our specialty admitted segment.

Finally, on investments. Net investment income for the third quarter was similar to last quarter at \$15 million, a decrease from the same quarter last year, largely due to lower income from our bank loan portfolio and to a lesser degree, from our renewable energy portfolio.

We sold about \$100 million of our bank loan portfolio back in the second quarter, and the impact of that has been to reduce gross yield on the portfolio. This quarter, our gross yield was 3.2% or about 70 basis points reduced from the third quarter of 2019.

Returns on our [\$30 million] renewable energy portfolio was decreased due to the manager's revaluation of the assets, which flowed through to us. Both investments have benefited us well for many years.

Lastly, I know I speak for my colleagues when I thank Adam for his deep strategic and entrepreneurial insight, his thoughtful and energetic leadership and generous friendship. He and Bob have led us on a path of success, and we look forward to more ahead. I've had the benefit of working with Frank, and I'm very excited to welcome him as our CEO.

So with that, let me turn the call back to Adam. Adam?

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Thank you, Sarah. And operator, we're ready to take questions if there are any.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Mark Hughes from Truist.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

The claims frequency statistics you provided are very interesting, any judgment you formed about what is causing that? Are these delayed reports that are going to come later? What kind of influences your thinking one way or the other about how material this is to the business?

**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

I think it's really material. And what we're talking about are claims from -- what I was talking about are claims from our Core E&S book. And I wouldn't expect any change in the speed or pattern of reporting of claims. I just think the frequency is going down.

I do think it's -- the most likely explanation for that is the continued pandemic. But we are in a happy position, and the industry is in a happy position of capital constraints across the industry, leading to increases in rate and the -- which we regret the diminishment of economic activity, of course, but -- and what's implied by that.

But that has led to a -- just fewer events occurring that will give rise to claims. So I think that this decrease in claims is -- for each period that we have it, is not a deferral. It is an indication that the claims will not arise later.

Now you always -- every book has late reported claims, but that's never been a huge problem in our book of business because of the layers we write -- remember that we mostly write primary layers. So I think this is an indication that these years that we're holding at a -- I think, a cautious, careful 65.5 will develop really well. They may be some of the -- they could prove to be some of the best years in our history ever.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

The increases on September in medical costs in the runoff reserves. I think you suggested that -- your observation was there was a delayed treatment. How has that progressed in recent weeks? Do you -- is there more information that bears on the duration of this step-up in expenses?

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Yes. Listen, for the most -- earlier in the quarter, we weren't saying it, just really came up in the last couple weeks of September. And so we just jumped on it, was our reaction it. Let's jump on it. And we're doing everything we can to unearth this information early. Sometimes it's not -- it's a little bit more difficult than you think to do that, but we are trying to unearth that information and get to it as fast as possible.

One thing I would say is, look, I really -- in the context of our growing Core E&S book, and our current -- the way we're holding our reserves for the '18 through '20 years. And the fact that simultaneously we have so thoroughly reduced -- thoroughly is probably not the right word for me, but so substantially reduced both the claims count and the percentage of open claims. I'm really feeling just fine about where we are in that runoff. It didn't stop us from wanting to react very quickly to a very small piece of data because we're staying on top of it. But I'm not overly troubled by it.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

Understood. Then one more question on small business. There's been a lot of question about the impact of COVID on small business. What does that mean for a small mid-sized account, E&S underwriters? Any observations you got about the small business trends?

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Yes. Look, we're up in small business. And that -- we've done well in small business. One does want to -- but it's not the core. It's a small division of our company. So I'm going to make that point that our average premium in casualty is about \$23,000, and our small business division is a much lower average premium and not a huge part of -- though it is a growing part of our book.

I think that was tremendously helped -- small businesses were boosted, I think, more than some of the rest of our book by the stimulus packages. I'm hoping and believing that there will be another stimulus package after the election. But if there isn't, it won't affect our book, I don't think, tremendously because small business is relatively a minor part of our total E&S premium; and two, because the capital constraints in the industry are what -- in the industry as a whole are what is really driving the rate increase, that and prior year development that you're seeing in the announcements of many, many companies.

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

And this is Bob Myron. Let me just add a comment there. Within our small Business division, probably the biggest class therein, is small -- really small contractors. And we -- as Adam said, we -- that continued to be fine from a production standpoint during the quarter.

In our General Casualty Division, not surprisingly, we did see a decline in some bars, restaurants and taverns, but the other part -- major part of that -- other major class of that division is habitational related risks. And there's tremendous demand for E&S product and very strong pricing power in that space. And so it's -- bars, restaurants and taverns is not a huge part of that division, Mark. And sort of...

**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

And just jumping on what Bob is saying. Sorry, Bob, but your really good point caused me to flip a page here and just make -- check a number. I do want to say that, look, our small business division for the quarter is up. It's still -- it's \$6.3 million we wrote, but it's up 25%. So it's not like we're seeing a decline. And it is because, as Bob points out, it's got a lot of small contractors in there.

And as anybody who's in the -- who is watching residential development sales knows, there's been a real constraint on people who can build houses or decks or do renovations for you, et cetera. And our General Casualty Division, where we write larger risks is also up. It was up 7.6% in the quarter.

**Operator**

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

**Matthew John Carletti** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Adam, I just wanted to ask you to -- if you could help unpack the Core E&S business a little bit for us. I mean we see a lot of statistics that you give, which are very helpful. But I know that rate increases can bounce around based on mix of business in any given quarter.

We're also getting into the cycle where I'm pretty sure your clients are starting to get second round and third round of rate increases or getting that compounding effect. Can you just help us understand as you look at your business, kind of which of the dozen or so classes of business in E&S you view as is really kind of being the most exciting for you guys?

And then as you think about it, not just from a kind of price change perspective, but how do you view some of those businesses or the group as a whole in terms of absolute pricing as opposed to the other points in history?

**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Okay. Well, let me -- I'm going to start with absolute pricing because I want to -- we've had significant continual increases quarter-over-quarter increases in pricing on a book that was already delivering good combined ratios before we started the price increases.

So I want to -- I just want to at these price increases, I think, are helping an already healthy book. And it's healthy, in our case, I think, because of where we've selected to play, and frankly, because of the high-quality underwriting that's being done by our underwriting desk and our leadership teams across the company.

And if it weren't for their skill set, I'd be less confident. But they have produced great combined ratios for a lot of years, as I was mentioning in terms of what the average has been for many years. We grew this quarter year-to-date -- we've been growing in general casualty, life sciences, manufacturers and contractors, professional liabilities, small business, sports and entertainment, excess casualty and excess property.

Now the excess casualty growth, of course, really helps us with our expense ratio because of the way -- and so does the excess property because of the way we've got that structured. By the way, it's probably worth mentioning, and this isn't responsive to your question, but I haven't said it before, so let me just say it now, that the way we write our excess property, we only had \$2 million roughly of exposure to the most recent storms. It was absorbed in our reported loss ratio. So we're not a big.

One of the things we do is don't expose ourselves to catastrophe losses. And we did the same thing in the excess casualty with a large -- keeping a relatively modest line there. So I think we've been getting -- I don't -- I do not think we are finished as an industry with the rate increases. And if you look at our submission rate and you look at our higher retention rate, I think you can expect, and we do expect to continue this trend for some time to come. I don't think we're at the top.

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**Matthew John Carletti** - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Great. That's very helpful. And congrats on the next retirement, I hope you enjoy it, and very warm welcome to Frank.

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

And by the way, this transition, I'll just take this opportunity to say we have been working, and the whole team has started working very closely with Frank. We're in the very early stages of it. But this transition is going very well.

His management style is just really in tune with the attitudes and underwriting focus that we have as a company. He's fitting right into the culture, and he will bring new skills. And deep experience to the company. He's going to add a lot to our company, and I am really excited about what we're going to see under his leadership.

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**Operator**

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

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

Yes, Adam, congrats, and nice working with you again until the next time you come back, I guess. But on net investment income, I wanted to see -- you said there were some changes there. What can get that above kind of this \$15 million a quarter run rate and are there kind of alternative investments or partnerships or things you can do that are different to possibly get that running higher?

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

Yes. Thanks for the question, Randy. It's Sarah. So it's tough in the old environment that we're all living in right now to push that much above the \$15 million a quarter that we've been generating for the last little bit. I do think there are probably some things we could do around the edges. But right now, I think we're trying to manage this interest rate environment as best we can, and I know our competitors are as well.

So looking to consider potentially a little bit more risk over the next year or so. But right now, we're pretty comfortable with the portfolio that we have having wanted to de-risk that volatility and focused on our underwriting returns and our attractive opportunities to grow core E&S and all the other things we're doing there. So we view it as a portfolio and a trade-off. And while we're looking for other things, I think the environment is what it is, to some degree at this moment.

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

Fair enough. And then -- and I apologize, I missed -- I had to miss part of the call, but just on fronting -- I guess there's a lot of focus here on E&S, and rightfully so, but just on the -- kind of the fronting side, where -- is that -- what inning is that opportunity in?

And can you just dimension that a little bit more? Are you getting more looks at opportunities and kind of what the demand function is there? Because the underlying risk is a little bit different.

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

We are getting -- I'm going to get Bob Myron involved in this because he's been intimately involved. We're all very excited about the advances that Falls Lake, which is our specialty admitted group has made, the new programs, which are really fee-generating programs because of the small retentions we keep.

But we think this is an area that has expanded as a percent really well. It's already delivering a low double digits of return on equity. But I think we are just beginning. And Bob, do you want to jump in here and comment on some of the work that you and the team there have been doing?

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

Yes. So I do -- I think it's still the early innings here. We certainly have been at it for a while. But we're continuing to invest a lot of time. And we now have full E&S licensure, and we've got several statutory entities, Randy, that are involved here.

And I think one of the areas that we're seeing growth and opportunity certainly is in fronting for E&S related deals and/or risks. And so -- and most of this is in the commercial line space. And so I think that there is a tremendous demand for -- increasing demand for the product.

One of the reasons why perhaps in the past, we haven't grown as much as we would like, is that a meaningful amount of our -- basically our gross premiums written in this segment are workers' compensation, which has been a challenge, has been a declining pricing environment, and we've been also watching classes and exposure really, really closely, but that shouldn't diminish the work that Terry McCafferty and his team have done.

They've put on a number of new deals this year, I would say that the size of these deals is increasing relative to what it's been in the past when we're putting on new deals or getting more interest in rollover deals. And I think that has an in-force book of business already and can be meaningfully large when it comes on board for us.

So we're going to continue to focus on that. Working on building relationships and developing relationships on some potentially larger transactions. And the work -- the group is all working together on that. And I think also, we'll get some leverage from Frank in that regard, too. So I think the outlook is positive in terms of our ability to really grow that meaningfully in the future and really grow the fee income there.

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

Great. So yes, I think of fronting as being more admitted on the comp side. So what -- is there -- can you roughly break out what your programs are right now between admitted and non-admitted?

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

Yes. I don't know if I have that information at hand. I would say because of the fact that we're writing \$60 million of gross of individual risk workers' comp business, which is 70% ceded away and \$140 million of California workers' comp-related business. There's probably -- it's meaningfully more than -- it's probably somewhere 70% to 80% right now that's actually admitted market business, right? And -- but the percentage of E&S has been growing.

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**Operator**

Our next question comes from the line of Sean Reitenbach from KWB.

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**Sean Keller Reitenbach** - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Adam, we at KBW, wish you the best, and we're looking forward to getting to know Frank. The rate commentary has been pretty positive, and it's been going on a bit. But do you feel rates are mostly adequate too? Or are there still a few areas that need to see more rate in your book before you would say it's broadly adequate? And maybe how would rates be impacted, do you think, if a corporate tax rate hike becomes increasingly likely?

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Yes. Well, look, I mean, I think if you look at the history that we've been citing of our historic developed loss in LAE ratio, you see the rates, we think that we've been writing business that was adequately priced for many years. I mean I quoted the 13 years' worth of experience in the 52.5% fully developed loss and LAE ratio. So we feel the -- our historic book has been adequately priced.

The price increases that we're getting in the last few years -- in the last 15 quarters, I think, are expanding our margin. And some -- there is, of course, the question, well, is there social inflation. But remember that we've always concentrated very heavily on the first \$1 million, the primary layer here.

So we're not -- we've already been exposed to that first \$1 million, and that's not where the social inflation is really being felt, and so I think these rate increases are helping. I think they are expanding our margin. And I think it's a really good harbinger for future results. There was a second part. Did I miss the second part of your question?

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**Sean Keller Reitenbach** - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Just how you would think a corporate tax rate hike might affect rate momentum that might further accelerate rate?

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Well, look, taxes are just one part of -- taxes are just one part of the return on tangible equity. I think if I look at our increase in rates, they're probably higher -- they're probably better than -- or greater than what we'll see in terms of a corporate tax hike, but I'm not a crystal ball reader. We will be -- the whole industry will have to face the same hike in rates, and we'll all have to respond individually to that to make sure that we maintain margins.

The industry is very focused. If you just see the commentary from CEOs across the board in the U.S. P&C industry. You're seeing that there is a tremendous emphasis on what we have to do as an industry to get margin. So I think that there's a lot of momentum here. And while interest rates are low, the only place to go really is rate.

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**Sean Keller Reitenbach** - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Great. Given your comments on the double-digit rate on top of rate, would it be reasonable for us to expect kind of low- to even mid-single-digit improvement in the accident year loss ratio next year?

**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

We're not going to -- tempting though it is, we're not going to preannounce.

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**Operator**

And we do have a follow-up question from Mark Hughes from Truist.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

Yes. Sarah, the ceding commission in the E&S, what's the typical percentage on that? Is it 25%, 30%, something like that?

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

It starts with a 3. In the 30s, yes. That's the meaningful benefit to the expense ratio. And obviously, we've already talked about the retentions in the segment.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

Yes. The -- and I'm sorry, I don't know if you mentioned this, but your updated thoughts on expense ratio both within -- I'm actually interested kind of across the board, E&S, specialty admitted and then overall is Q3 a good barometer?

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

Good question, Mark. I think about the expense ratio. I think the 9-month year-to-date is a good barometer for where we're going to be on the year. And so that's going to hold through to all the segments, although I think the real thing that I'm not going to be able to predict, which is good, is the real strength in the excess casualty market in particular within Core E&S because that's -- obviously, there's been great rate in that line.

It's one of the best rate performers in all of our E&S book. So we've grown it substantially, and it's had a material impact on the expense ratio. So I think that could continue to be favorable on the E&S expense ratio. I think there were some one-offs in casualty reinsurance this quarter. So that's why I'm not particularly focused on the quarter, but really think about the 9-month numbers across the board.

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**Mark Douglas Hughes** - *Truist Securities, Inc., Research Division - MD*

And in specialty admitted, it's kind of the same situation. You've got fee income that's offsetting the expenses. And in the year-to-date, I hear what you're saying, but then I -- the year-to-date is different than 3Q, clearly. Is there some reason why things shouldn't be as good as 3Q, particularly in specialty admitted and E&S? Or is that more conservatism?

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

No, I'm talking about year-to-date. We'd end the year-to-date with the full year, so not particularly in the fourth quarter. So I know I'm mixing and matching a little bit there. On specialty admitted, there were some small one-offs, and there's not a lot of premium in that segment, again, with the focus on front the fronted business.

So I think about the run rate in that segment for where we are now, and we'll get a benefit as we continue to grow the fronted business of being closer to that 20%, 21% where we are on a 9-month basis there. I'm happy to follow-up in more detail offline, if that's helpful, too.

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**Operator**

(Operator Instructions)

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

All right. We're about -- we're upset that there are no more questions, operator.

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**Jonathan Adam Abram** - *James River Group Holdings, Ltd. - Non-Executive Chairman*

Operator, thank you and everybody on the phone call. Thank you very much for your attention to our company and following us, and we look forward to reporting, and you'll be hearing from Frank next quarter. And I think we're very excited with the prospect of his leadership. Thank you, and we'll speak soon.

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**Operator**

Ladies and gentlemen, that does conclude our conference for today. Thank you all for joining. You may all disconnect.

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