Argo Group International Holdings, Ltd.
NYSE: ARGO
FQ4 2021 Earnings Call Transcripts
Wednesday, February 23, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates

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Currency: USD
Consensus as of Feb-23-2022 6:50 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

- EPS NORMALIZED -

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Call Participants

EXECUTIVES

Gregory Charpentier  
AVP of Investor Relations & Corporate Finance

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
Presentation

Operator

Good morning. Thank you for attending today's Argo Group Fourth Quarter 2021 Earnings Call. My name is Quita. I will be your moderator for today's call. [Operator Instructions] I would now like to pass the conference over to your host, Greg Charpentier with Argo Group. Please go ahead, Greg.

Gregory Charpentier
AVP of Investor Relations & Corporate Finance

Thank you and Good morning. Welcome to Argo Group's conference call for the fourth quarter and year ended December 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.argogroup.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 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 referencing certain non-GAAP financial information. More information regarding these non-GAAP 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, Greg. Welcome to everyone on the call. On today's call, I will reflect on the progress we have made towards the strategic goals we have set for Argo over the past 2 years and review the operating highlights from the quarter and year. Scott Kirk, our Chief Financial Officer, will take us through additional detail on the financials and I'll provide some closing remarks before we begin the Q&A.

Our strategy continues to focus on growth in earned premium, reducing volatility, expanding our margins and generating higher earnings. Although our fourth quarter results are below expectations, we remain encouraged by several strengths and accomplishments in the ongoing business. Having just completed my second full year as CEO, I'd like to begin by reflecting on the progress we've made against these goals.

First, Argo is a stronger, simpler operation. We have made meaningful progress toward our expense ratio target and expect to realize continued benefits in 2022 from our cost reduction efforts. Our expense reduction efforts are not complete and there are several areas that we are focusing on to drive additional expense savings over the coming year. Argo today is a U.S. focused specialty insurer with leading positions in very profitable specialty lines.

Over the past 2 years, Argo has divested its reinsurance operations, significantly reduced its property exposure through divestitures of U.S. specialty property and contract binding business units, exited noncore lines of business and lower volatility of its business model. As a result, we are in the fourth quarter of our journey and I'm confident in the underlying strength and profitability of our ongoing business.

Second, we completed the majority of our work towards reducing volatility in our underwriting results. Our strategic focus on reducing volatility through exiting and divesting noncore businesses is evident in 2021 catastrophe loss results. Despite elevated industry losses year-over-year, our catastrophe losses were down significantly. And in the ongoing businesses, net catastrophe losses have averaged $18 million annually over the last 5 years.

And third, I would like to point out the strong progress we are making on growing our most profitable businesses. In fact, gross written premium has increased by approximately 15% in the full year of 2021 in the ongoing businesses. These are all notable milestones, which we will describe in more detail throughout the call.
Let's begin by discussing our efforts to simplify the organization and reduce expenses. The actions we have implemented are in our current year accident combined ratio, which improved 3 points in the 2021 fourth quarter. This was primarily driven by improvement in our expense ratio and to a lesser extent, modest improvement in our current accident year excess loss ratio, which marks the seventh consecutive quarter of year-over-year improvement.

The benefits from expense reduction efforts continued to materialize in the fourth quarter results as expense ratio improved 2.9 points to 35.3%. Both the acquisition and general and administrative expense ratios contributed to the improvement and we are making meaningful progress in several focus areas. We continued to reduce our future real estate expense base with the reduction of our real estate footprint in the U.K. as announced 2 weeks ago. Occupancy costs are expected to be down $8 million or 40% in 2022 when compared to 2019. Our headcount has decreased approximately 20% or just under 300 employees since July of 2020, including the divested businesses.

Included in the fourth quarter nonoperating expenses were charges related to certain information technology assets. Argo will continue to focus resources on core lines of business as we rightsize our asset base and exit certain locations. Expenses related to information technology are expected to decrease nearly 20% in 2022 as compared to such expenses incurred in 2019. When we began our expense reduction efforts, some of the identified savings will be invested back into the businesses to facilitate our growth and improve efficiency.

Now turning to our focus on reducing volatility in our underwriting results. We are continuously looking at ways to optimize our portfolio and allocate capital and resources to business units within the highest risk-adjusted returns. There are several cases where we’ve taken appropriate action in lines of business that are profitable contributors today. If we can't obtain the results we require, we will exit the line or business as we have previously demonstrated. While we always review our lines of business and respond to environmental changes in the marketplace, we feel confident in what comprises our ongoing business today.

The results we achieved in our international operations further demonstrates the progress we’ve made after taking swift remedial action. In the 2021 fourth quarter, international operations generated an underwriting income of $36 million, its highest quarterly underwriting income in company history. The improvement was a result of favorable prior year loss development, a significant reduction in catastrophe losses and an improved expense ratio. I'm pleased to announce that Syndicate 1200 was a strong contributor to these results, generating positive underwriting income in both the 2021 fourth quarter and for the full year.

Market conditions, which have compounded over the past 3 years have allowed us to grow premiums while maintaining or reducing the amount of risk exposed. We expect the strategic transformation Argo has undergone in conjunction with current market conditions to drive improvement in underwriting results as we move forward. Now to share more detail on our growing -- on our most profitable businesses, our top line in the quarter continued to reflect targeted growth in our prioritized business segments.

Overall gross written premium increased 2.3% in the quarter. However, ongoing business premiums grew approximately 11% during the fourth quarter of 2021. Net written and net earned premium outpaced gross written premium in the fourth quarter, driven by strategic actions and business mix shifts towards the lines of business with higher premium retention. Growth was more pronounced in our ongoing business as net written premium and net earned premium grew 24% and 20% respectively.

U.S. gross written premium growth was 1.8% in the fourth quarter of 2021 due mainly to growth in specialty, casualty and professional lines, while premiums in property lines declined. Gross written premium in our U.S. ongoing business increased approximately 12% in the fourth quarter of 2021. In the U.S., we continue to see solid rate increases in the mid-single digits on average. We feel very good about the rates we’re seeing and the direction of our markets. It is worth noting the cumulative rate change for U.S. operations business written in the fourth quarter over the past 3 years has been 23.9%.

Turning to International. Reported gross premium increased 3.3% in the fourth quarter. The increase in gross written premiums is primarily attributable to higher rates, which averaged high-single digits during the 2021 fourth quarter, partially offset by the impact of the exited businesses. In the ongoing business, excluding the increased share of Syndicate 1200’s capacity, gross written premium was broadly in line with the prior year fourth quarter. Over the past 3 years, cumulative rate change for international operations business written for the fourth quarter has been 50.5%.
We reported very strong results on the investment side, driven by a significant contribution from our alternative investments portfolio. Notably, net investment income from our bond portfolio increased in the fourth quarter, an encouraging reversal from the trend experienced in the first 9 months of 2021. We have seen a recovery in reinvestment rates that has continued into the current quarter. For context, reinvestment yields were hovering around 1.1% in the first half of 2021 and today are closer to 2.5%.

Fourth quarter underwriting results included reserve strengthening of $132 million or 27 points on the loss ratio, with adverse development coming from U.S. operations and runoff lines. As previously mentioned, this was partially offset by favorable development in our international operations. We believe the reserve actions we’ve taken during 2021 fourth quarter reflect all the latest and up-to-date information that was included in the fourth quarter reserve review. We conduct reserve reviews of all ongoing businesses each quarter.

We maintain a continuous feedback loop between actuarial, underwriting, claims and reinsurance operations that enhances our ability to react quickly to the findings of the reserve reviews. The booker reserves the best estimates and believe they reflect the trends, both positive and negative that we observed across our lines of business. Approximately [$77] million of the adverse prior year development was driven by construction defect claims within Argo's U.S. operations.

A large portion of the reserve increased for construction defect was associated with businesses that have either been discontinued, including contract binding in October of 2021 or have been significantly remediated. The remediated portion was previously underwritten by our casualty business. We established Argo Construction as a stand-alone business unit in June of 2018 to focus on the construction market with a greater depth of talent and knowledge. Most of the claims associated with contract binding and casualty were written outside of the core construction business.

Over 95% of the construction defect prior year adverse development in 2021 fourth quarter applied to 2017 and prior years. We started taking underwriting action on construction defect at the end of 2017, including strengthening underwriting guidelines and placing significant restrictions on certain states and exposures. Much of the adverse reserve development was a result of analyses performed in the fourth quarter, which included among other things, new and/or updated information received relating to construction defect claims.

As a result of the underwriting actions and the changed profile of the book, I would like to note that more recent accident years are performing within expectations. Management liability accounted for nearly $30 million of the adverse development in our U.S. operations in the 2021 fourth quarter. The reserve increase applied to accident years 2016 through 2018. The balance of adverse development in our U.S. operations was primarily driven by our U.S. Specialty Programs business, but we also took action in the current year.

Prior year losses also include the conclusion of Argo's annual runoff review of reserves, which resulted in a $38 million reserve increase for the 2021 fourth quarter. Included in our Run-off Lines segment, the claims related to risk management, work comp coverage, as well as some environmental liabilities and other Run-off Lines. More than 55% of Run-off net reserves are related to our risk management business, which has performed within expectations.

During the fourth quarter, we engaged an internationally recognized third-party actuarial firm to perform an in-depth review of our reserves across the company as of the year-end 2021. Our carried reserve total as of December 31, 2021, was above their central estimate when including our reserve strengthening actions in the 2021 fourth quarter. This is not an indication of any future performance, but it does give more confidence following the actions we took last year.

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

Thank you, Kevin, and Good morning, everybody. As most of you already know, we preannounced certain items related to our fourth quarter earnings 2 weeks ago. As a result, I'll focus my comments today on providing more detail on the overall financial results for the quarter. I'll turn first to our consolidated operating results. While we reported a net loss for the quarter of $118.8 million and an operating loss of $61.8 million, our full year 2021 reported net loss was $4.7 million and an operating income of $41.5 million.

The modest full year 2021 net loss benefited from strong earnings during the first 9 months of 2021. This compares to a net loss of $59 million and an operating loss of $10 million for the full year 2020. Gross written premiums increased
2.3% in the fourth quarter of 2021. The increase in gross written premium is attributable to modest growth in both the U.S. and international operations. Gross written premiums in our ongoing business grew approximately 11% during the fourth quarter of 2021 compared to the same period in 2020.

Net written and net earned premium grew approximately 9% and 4% in the fourth quarter of 2021 respectively, outpacing the growth in gross written premiums. As we discussed previously, this reflects strategic actions and business mix shifts towards higher premium retention lines. In the fourth quarter and full year of 2021, our retention ratio calculated as net written premium divided by gross written premium increased 4 and 6 points to 65% and 62%, respectively. This is primarily the result of increased retention in our international operations, resulting mainly from the sale of Ariel Re, where we retained very little of the risk on a net basis in addition to our increased participation in Syndicate 1200 results.

The U.S. segment also contributed to the retention increase due to shifts in business mix towards focused lines of business where we retained more of the risk on a net basis. In the fourth quarter of 2021, we reported a loss ratio of 87.1%, an increase of approximately 17 points and 69.8% during the fourth year prior quarter. The increase reflected adverse prior year reserve development, partially offset by lower catastrophe losses. Our catastrophe losses totaled $6.8 million or 1.4 points of the combined ratio in the fourth quarter of 2021, of which $6.4 million related to natural catastrophes and $400,000 related to the impact from COVID.

This compares favorably to cat losses of $51 million or nearly 11 points in the combined ratio in the prior year quarter, which included $38.3 million related to natural catastrophes and just under $13 million related to COVID. As Kevin mentioned, the successful implementation of our strategy to reduce property cat-related exposures has resulted in a significant reduction in our catastrophe losses in 2021 despite increased industry cat loss activity. Adverse prior year reserve development totaled $132.3 million in the fourth quarter of 2021.

This was driven by $121.6 million of adverse reserve development in our U.S. operations and $37.7 million of adverse reserve development in our run-off lines. This was partially offset by $27 million of favorable reserve development in our international operations. The prior year quarter included $1.6 million of adverse reserve development. The ex-cat current accident year loss ratio came in at 58.5% in the fourth quarter and was broadly in line with the prior year quarter. For the full year 2021, the ex-cat current accident year loss ratio was 56.8%, down from 57.4% in 2020 with the improvement reflecting the benefits from our re-underwriting actions in addition to the impact of continued rate increases.

Turning now to expenses. Our expense ratio was 35.3% in the fourth quarter of 2021, a 2.9 point improvement compared to the prior year quarter. Our acquisition expense and general and administrative expense ratios improved versus the 2020 fourth quarter. This marks the fourth consecutive quarter of sequential improvement in our expense ratio and our full year expense ratio now stands at 36.8%.

Current accident year ex-cat combined ratio for the fourth quarter 2021 was 93.8% compared with 96.8% in the fourth quarter of 2020, with the improvement attributable to a reduction in the expense ratio. The current accident year combined ratio, including cats, was 95.2% in the fourth quarter of 2021, down from 107.7% in the fourth quarter of 2020, with the improvement attributable to a reduction in our cat losses in addition to the expense ratio improvement.

As we announced 2 weeks ago, we also incurred $22.8 million in nonoperating expenses, mainly related to the reduction in our real estate footprint in the U.K. and the impairment of certain information technology assets. The actions are part of our strategic efforts to create a simpler and leaner Argo and we expect the benefits of these actions to materialize in the expense ratio in 2022.

We have taken action to reduce our headcount, our use of third-party services and our real estate footprint, which positions us well to take further actions on the expense ratio in 2022. We believe the 36% expense ratio target that we set ourselves in 2022 is within reach and we continue to review and execute on opportunities for further efficiencies in the organization.

Turning now to our segment results. In the U.S., gross written premiums were up 1.8% compared to the fourth quarter of 2020. Net written premiums and net earned premiums in the U.S. increased by 6% and 9% respectively versus the prior year quarter. U.S. operations reported an underwriting loss of $94.9 million and a combined ratio of 128.6% in the fourth quarter of 2021. The loss ratio increased 31.7 points to 98.1% primarily driven by adverse prior year development.

The expense ratio of 30.5% decreased 230 basis points from the prior year quarter and was driven by an improvement in both the acquisition ratio and the general and administrative expense ratio. The improvement in the acquisition ratio
was primarily related to changes in business mix and the improvement in the G&A ratio was due to a combination of the execution of expense reduction initiatives and increased net earned premiums.

Turning now to our international operations. Gross written premiums increased 3.3% in the fourth quarter of 2021 compared with the fourth quarter of 2020. The increase reflects higher rates and increased participation in Syndicate 1200 capacity and was partially offset by the impact of previously announced sales and exits. International operations net written premium increased nearly 15% versus the prior year fourth quarter. The increase is mainly attributable to growth in Syndicate 1200, where we retain more of the risk net. While net written premiums increased nearly 15%, net earned premiums fourth quarter decreased 4%. Now the decrease in net earned premiums is attributable to business exits we have announced.

International operations reported underwriting income of $36.3 million in the fourth quarter of 2021 compared to an underwriting loss of $28.1 million in the prior year quarter. The combined ratio decreased 40.9 percentage points to 76.5% in the fourth quarter of 2021. This decline was driven by favorable prior year reserve development, a reduction in cat losses and an improvement in the expense ratio as compared to the fourth quarter of 2020.

Current accident year ex-cat loss ratio was 54.5% and was broadly in line with the same period last year. Catastrophe losses during the fourth quarter of 2021 were $3.6 million or 2.4 percentage points in the combined ratio compared to cat losses of $37.1 million or 23 points on the combined ratio in the prior year fourth quarter. The expense ratio of 37.1% decreased 420 basis points from the prior year quarter, driven by changes in business mix benefiting the acquisition ratio. We've previously spoken about exiting businesses with higher acquisition costs and the benefits of these actions continue to earn through and benefit the acquisition ratio in the International segment.

The fourth quarter of 2021 included a $43.2 million impairment of goodwill and intangibles related to Argo Syndicate 1200 business unit. This represents just under half of the total goodwill and intangible assets associated with the syndicate before the impairment charge. Now, we perform an annual assessment of intangible assets and goodwill on our balance sheet.

While we feel that Syndicate 1200 has made significant improvements over the last several years, we have stress tested the future cash flows of that business in light of our trading history at Lords, the size and scope of the business today and more recent transactions involving Lloyd Syndicate. And as a result, we believe the impairment is appropriate.

Now moving on to investments. We reported net investment income of $44.4 million in the 2021 fourth quarter. This included $20.7 million of income from alternative investments. And although we are certainly pleased with this result, we recognize that the outperformance of alternative investments for the last 6 quarters may not continue for an extended period and could revert to long-term historical levels.

While the recent volatility in the equity markets, returns from our alternative investments might be more challenged over the next few quarters. Net investment income for the remainder of the portfolio was $23.7 million in the fourth quarter of 2021, a slight increase compared to the prior quarter. And finally, let me touch on capital. Prior year adverse loss development, we discussed earlier, has clearly had an impact on our quarterly earnings.

The full year, however, is only a small net loss, which benefited from strong earnings during the first 9 months of 2021. The reduction in shareholders’ equity during the fourth quarter of 2021 is largely attributable to a reduction in the unrealized gains in the investment portfolio. Book value per share was $45.60 as of December 31, 2021, down from $49.40 at the end of 2020. Tangible book value per share was $40.98, a decrease of 3% when you include dividends over the same period. Finally, we engage in regular communication and maintained strong relationships with our rating agencies and regulators, and we remain committed to maintaining a strong capital position.

I'll now turn the call back over to Kevin for some concluding remarks.

Kevin James Rehnberg
President, CEO & Director

Scott, thank you very much. We remain encouraged by the continued growth and underlying strength of our ongoing businesses. As we look to 2022, we plan to continue strengthening and simplifying the organization with a focus on disciplined expense management. We remain focused on reducing volatility in our underwriting results and pursuing profitable growth.
Turning to our guidance for 2022. We expect to reach double-digit net earned premium growth when excluding the impact of previously announced business sales and exits of roughly $280 million. We are targeting an operating return on common equity in the range of 9% to 11% and a combined ratio in the range of 92% to 95% for the full year 2022.

We continue to target a 36% expense ratio for 2022. The expense reduction story does not end here, however, and we believe there are incremental savings we can achieve across our business. In closing, I would like to note that Argo Group today is positioned significantly stronger than just a few years ago. We’re growing profitably in the lines of business we view most attractive and I’m pleased with the progress we’ve been able to make on our strategic objectives.

Argo is a stronger and leaner company with less complexity today than we laid out -- than when we laid out our strategic plan 2 years ago. We are positioned well to take advantage of the favorable underwriting opportunities we see in place.

Operator, that concludes our prepared remarks, and we’re now ready to take questions.
Question and Answer

Operator

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

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

So the progress that you've made in international is undeniable and is to be applauded and problem is we can't really use that to sugarcoat the surprise reserve charge, Kevin, and then the U.S. business, which had been thought of traditionally as one of the crown jewels of the company. So, I guess, there's a whole host of questions one can ask regarding what happened. But you said in your prepared remarks that you do quarterly reserve reviews. And then -- so I presume you're doing this every quarter last year.

And then between November and then February this year, all of a sudden, you uncovered this tremendously -- and well, the black hole of this reserve charge that you've announced. So, I guess, my question is, what happened if you can give us sort of the inside baseball view of this? And then secondly, how can we gain confidence that -- it feels like we might have to wait until the fourth quarter of 2022 before we -- when you get through another annual reserve review before we have any visibility on whether things have stabilized or not. So kind of a couple of different questions embedded in that, but I think you know where I'm going with it.

Kevin James Rehnberg  
*President, CEO & Director*

No, I absolutely do. And so as we mentioned, we conduct reserve reviews of all the ongoing businesses each quarter, as you pointed out. And there is a continuous feedback loop between actuarial, underwriting claims and reinsurance operations that enhances our ability to react to the findings of the reserve reviews. So we booked the reserves to best estimates and believe they reflect trends, both positive and negative that we observe on the lines. It should be noted that a large portion of the reserve strengthening is associated with the CD business, as you just discussed.

So $31 million of that was from discontinued lines or contract binding and $46 million was out of remediated businesses within construction and previously casualty. So, the significant amount of business that's written for covering insurance in the construction industry is subject to claims alleging construction defects. And the estimates of the ultimate liabilities with these claims are subject to greater inherent variability than is typical in the remainder of what we look at.

So some of the factors that contributed to the high degree of variability include but aren't limited necessarily to multiple plaintiffs, defendants often involved in the claims and difficulty in determining the law states. What we saw in the third quarter was increased -- in third and fourth quarter, last half of the year, an increase in the number of claims. And so for the fourth quarter, as the paid and case reserve started to deviate and we saw a lot of oscillation in the book of business, we engaged the third party as we mentioned. And using all that information, the third party and the best estimates that we had, we came up with the number that we did.

Now in terms of remediation of this book, as we mentioned, the years involved go back from '17 and prior to the majority between '12 and '17. And we started some underwriting actions in the end of 2017 when a task force was convened on CD, which had previously been underwritten in our liability area, which included construction and in our contract binding line of business.

So, we broke out construction as a separate business and started underwriting more specifically on this business and changed the underwriting guidelines around what had happened. So, the book we have today is not as exposed. It's got different underwriting terms and conditions, different approaches to it. So, while I understand there is a concern about it, we have been working on the underwriting side of this for the past 5 years, and we mentioned in the recent years that has been performing according to expectations. Scott, would you like to add anything here?

Scott Kirk  
*CFO, Principal Financial Officer & Principal Accounting Officer*

I don't, Kevin. Actually, that is a comprehensive answer from my perspective.
Charles Gregory Peters  
*Raymond James & Associates, Inc., Research Division*

So just a follow-up or clarification on that, Kevin, because these are older claims, if I'm not mistaken, there's like a 10-year tail on this where claims could be filed. Is -- do we have any sense that the actuaries and you guys have seen the peak claims from these older accident years? Or is it the expectation in this reserve charge that you're expecting a further increase in claim counts for this piece of the business that caused the most problems.

Kevin James Rehnberg  
*President, CEO & Director*

Yes. Actually, really good question, Greg. And what we've seen is that, yes, there are statute of limitations that are long on these things. But the overall claim counts between this time 2 years ago and in the fourth quarter, gone up in the high teens and they're now back down to where they were low, so some back to 2 years ago.

So while there was an increase, some of it may have been statute, some of it may have been people filing claims and some catch-up from previous years, but it's more normalized now with what we expect and where we are currently. We've got a really robust claims group associated with this that are on these very complicated claims. And we -- it's a frequency issue more than a severity issue, and we are watching that closely. But we do believe what we've done is appropriate.

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

Got it. I guess the second question would be around the expense ratio. And I think you guys gave some very specific numbers while you did regarding where you think that's going to go for this year and you talked about [Technical Difficulty] you're going to generate off the real estate footprint. So if I go through -- if I just look in your consolidated income statement and I look at the general and administrative expense that was up. I look at nonoperating expense that was up for the full year, right? And I assume some of those expenses that you've discussed the onetime are running through that.

I guess when we think about those numbers for 2022, the general and administration -- just on a consolidated basis in the nonoperating, do you expect those to be flat with 2020? Do you expect them to be down? Or should I look at 2021 as a base year -- sort of directionally just trying to understand where the reset is happening in the expense ratio?

Kevin James Rehnberg  
*President, CEO & Director*

Yes. No, that's a good question. I think the change in the book makeup would be around the expense ratio. And I think you guys gave some very specific numbers while you did regarding where you think that's going to go for this year and you talked about [Technical Difficulty] you're going to generate off the real estate footprint. So if I go through -- if I just look in your consolidated income statement and I look at like the general and administrative expense that was up. I look at nonoperating expense that was up for the full year, right? And I assume some of those expenses that you've discussed the onetime are running through that.

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Scott Kirk  
*CFO, Principal Financial Officer & Principal Accounting Officer*

Maybe I'll just jump in a little bit there. Now when -- if we cast our minds back really about 6 to 9 months ago, when we talked about this process, we said that the expense ratio improvement was going to come from 2 key sources, right? The first one being the increase in net earned premiums. And that has happened. You've seen the impact of that come through in this year.

And secondly, we would see our expense initiatives start to take hold. Now, I feel good about the levels of headcount reductions and clearly, the service charges and the real estate footprint. Look, if you use 2021 as your baseline, I think that's probably a good starting point and go from there. Now you also asked about nonoperating expenses. Clearly, we've taken some of those. They're hard to predict by nature. But look, I think, Kevin, you agree with me that from a real estate perspective, I think a large chunk of that is done. And we'll let you know as any others come up as we go forward in terms of nonoperating numbers.
Charles Gregory Peters  
*Raymond James & Associates, Inc., Research Division*

I guess the final question and I know others want to ask questions, so would be around just capital management and the stock price is clearly now depressed. And you have a plan for earnings this year and capital generation, what -- and you're balancing that with the rating agency. What's your view towards capital and the potential for share repurchase in 2022?

Kevin James Rehnberg  
*President, CEO & Director*

Yes. So the capital that we have at the moment is appropriate for us to go trade through the business. I think we -- in terms of just reiterating what Scott said, the discussions we have with the regulators and the rating agencies has been very transparent and we have good relationships with them. So, as far as uses of the capital, at the moment, it's all business for us. If we get to a point in a year where there's not as many business opportunities, I -- we would consider a number of things.

Operator

The next question is from Casey Alexander with Compass Point.

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

Greg did ask a couple of my questions, but I do have a couple more. On your presentation on the financial objectives, you're projecting for double-digit net earned premium growth on the existing business lines. And so my question is, you have a greater insight into how the businesses that have been taken out of the business, how those premiums would have earned in. So, can you give us some idea how that translates to actual NEP versus 2021? I mean is it flat? Is it down a shade, is it up a shade versus 2021 once you pull out those businesses that have been taken out of the business?

Kevin James Rehnberg  
*President, CEO & Director*

It is up, and I think that's why we talked about that. And Scott, do you want to provide some specific commentary here?

Scott Kirk  
*CFO, Principal Financial Officer & Principal Accounting Officer*

Yes. Look, Casey, it's a good question. And obviously, there is some noise in those numbers. Now what I would say is the trajectory in the U.S. has been a fairly constant one and obviously, we've taken some actions on the international side of the house, which certainly makes it look potentially a little more lumpy, right? You've got to factor in the fact that we've exited or largely put in run-off our European operations multi Italy. And in addition to that, we just announced the sale of our Brazilian operations, right? So I think on that basis, you've got to factor those components again. But then, obviously, with those out of there, you've got the underlying growth story that Kevin has talked about.

Kevin James Rehnberg  
*President, CEO & Director*

They're going to be roughly in line, right? I mean, what we're trying to do is emphasize the fact that we're -- the business that we've got, that we're looking at, we're going to be retaining more of because there's less reinsurance associated with those. And there's also good growth prospects in these ongoing businesses. So, we feel really good about that. But when you strip it all the way, because of the $280 million that's going away, it's going to be about the same.

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

The write-down of amortization and goodwill at Syndicate 1200, you mentioned that was in line with some similar businesses that you had seen transact? Is Syndicate 1200 a part of potentially the program to simplify the business and does the write-down make it more palatable given the transactions that you've seen with other companies?

Kevin James Rehnberg  
*President, CEO & Director*
Yes. So I think -- people have been asking that question for 2 years, right? And I've given the same answer and we still -- it's going to be the same, right? We look at every business, every quarter, and we try to see what are the opportunities for this in the near and mid-term. And the amount of work that's gone into that business and the work that's been done by the team has been fantastic, as seen in the fourth quarter, right?

And some challenges earlier in the year, but their expenses have come down, the underwriting margins are improving, and we're getting out of the more [ cats ] businesses where we haven't done well. All that being said, there's an expense issue associated with it, which we still are working on. And so, we'll continue to look at that versus other businesses and where opportunities are. And we've had move or change or sales or exits from different businesses in the U.S. and outside. But as long as they're performing well, it will continue to be part of our specialty-focused business.

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

Okay. And my last question.

Kevin James Rehnberg  
President, CEO & Director  

I think I answered your question completely. I'm not sure

Scott Kirk  
CFO, Principal Financial Officer & Principal Accounting Officer  

Yes, you have Kevin. Casey, you can't really connect the impairment and what Kevin just said. The impairment is really driven by the accounting rules and regs around that. And as I said in my prepared remarks that we stress test the future cash flows of these businesses in light of the, obviously, trading history and other items. So you can't connect them on that basis, not as simply as that anyway.

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

Yes. So my last question is, it seems like you engaged a third-party actuarial firm in the fourth quarter because it was consequential based upon what you were finding and you felt like you needed some additional help to ferret it out. So would it be fair to say that at least at this point in time, you would be unlikely to be engaging a third-party actuarial firm at the end of this year?

Kevin James Rehnberg  
President, CEO & Director  

What we said when we first did it, we did it the beginning of 2020 after I've gotten into the job. And we said at that point, we would do it on a regular basis going forward. And regular means sometime in the future. And so with Scott coming on board and us closing out a year just like with the noise that was in there, it made sense to do it at that point in time. And so, we'll continue to do it from time to time as we go forward. And I think it's good practice for us.

Operator  

There are no additional questions waiting at this time. I would like to pass the conference back over to the management team for any additional remarks.

Kevin James Rehnberg  
President, CEO & Director  

Okay. I'd like to thank everyone for your interest in the company, your good questions, and thank you regulators, rating agencies, shareholders, policyholders, employees and other supporters of the organization. And we look forward to catching up with you in the near future. Take care.

Operator  

That concludes the Argo Group fourth quarter 2021 earnings call. Thank you for your participation. You may now disconnect your lines.