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Old Republic International Corporation NYSE:ORI

Earnings Call

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Call Participants

EXECUTIVES

Carolyn Jean Monroe
President

Craig Richard Smiddy
President, CEO & Director

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

ANALYSTS

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

ATTENDEES

Joe Calabrese

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Old Republic International Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Joe Calabrese with the Financial Relations Board. Please go ahead.

Joe Calabrese

Thank you, Regina. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss fourth quarter 2024 results. This morning, we distributed a copy of the press release and posted a separate financial supplement. Both of the documents are available on Old Republic's website at www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release and financial supplement dated January 23, 2025. Risks associated with these statements can be found in the company's latest SEC filings.

Presenting on today's conference call will be Craig Smiddy, President and CEO; Frank Sodaro, Chief Financial Officer; and Carolyn Monroe, President and CEO of Old Republic National Title Insurance Group. Management will make some opening remarks, and then we'll open the line for your questions.

At this time, I'd like to turn the call over to Craig. Please go ahead, sir.

Craig Richard Smiddy
President, CEO & Director

Okay. Thank you, Joe. Good afternoon, and welcome again to Old Republic Fourth Quarter and Year-end 2024 Earnings Call. So during the fourth quarter, we produced $285 million of consolidated pretax operating income, up from $237 million in 2023. Our consolidated combined ratio was 92.7%, and that compares to 93.3% in the fourth quarter of last year.

As we noted in the release, we've renamed our General Insurance segment to Specialty Insurance. We believe specialty more appropriately reflects our specialty P&C strategy with 17 underwriting subsidiaries focused on unique specialty niche markets.

So in Specialty Insurance, we grew net premiums earned by 13% in the fourth quarter and produced $228 million of pretax operating income. That's up from $195 million last year. The Specialty Insurance combined ratio was 91.8% in the quarter, and that compares to 92% last year. Despite the continuation of higher mortgage interest rates and a tight real estate market, Title Insurance grew premiums and fees by 9% in the fourth quarter and produced $55 million of pretax operating income, up from $44 million last year. The Title Insurance combined ratio was 94.4% in the quarter, and that compares to 95.5% last year.

Our conservative reserving practices continue to produce both favorable prior year development in the Specialty Insurance and Title Insurance segments. And Frank will talk a little bit more about that as we get to his remarks.

Our balance sheet remains strong even as we returned a large amount of capital to shareholders through both dividends and share repurchases. We declared a special dividend of $2 per share in the fourth quarter, which reduced our book value per share by that same $2 amount. While we continue to return excess capital to shareholders, we also continue to manage for the long run, investing in new specialty underwriting subsidiaries, technology and talent. And on that front, you may have seen earlier this month, we announced our latest new underwriting venture, Old Republic Cyber.

So I'll now turn the discussion over to Frank. And then Frank will turn things back to me to cover Specialty Insurance, followed by Carolyn who will discuss Title Insurance. And then we'll open it up for our usual Q&A and conversation.

So with that, Frank, I hand it over to you.

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

Thank you, Craig, and good afternoon, everyone. This morning, we reported net operating income of $227 million for the quarter compared to $190 million last year. On a per share basis, comparable year-over-year results were $0.90 compared to $0.69 last year.

Net investment income increased 10% and 16% in the quarter and year, respectively, driven by higher yields on the bond portfolio. Our average reinvestment rate on corporate bonds during the year was 4.8%, while the comparable book yield on corporate bonds disposed of was 3.5%. The total bond portfolio book yield now stands at 4.5% compared to 4% at the end of last year.

During the quarter, the value of our total investment portfolio decreased by about $400 million. However, we ended the full year up over $100 million.

Turning now to loss reserves. In the quarter, the consolidated loss ratios benefited from favorable development by 2.9 percentage points compared to 4.7 last year. As expected, the lower level in the quarter came primarily from Specialty Insurance and was consistent with the full year results.

I'll now give some line of coverage details. Commercial auto and workers' comp continued to have strong favorable development, although lower than last year. Property also experienced strong favorable development and was higher than last year. The favorable development in these lines were partially offset by unfavorable development in general liability, which was spread across multiple subsidiaries in accident years and in transactional risk, which is included within financial indemnity. This recent experience aided our decision to exit transactional risk, which contributed less than $20 million of premium in 2024.

We ended the quarter with book value per share of $22.84 which, inclusive of both the ordinary dividends and the $2 special dividend declared in the quarter, equated to an increase of 11% for the year resulting primarily from our strong operating earnings.

In the quarter, we declared nearly $560 million of dividends and repurchased $174 million worth of our shares, bringing the total capital return this year to just over $1.7 billion. Since the end of the quarter, we repurchased another $25 million worth of shares, leaving us with about $205 million remaining on our current repurchase program.

I'll now turn the call back over to Craig for a discussion of Specialty Insurance.

Craig Richard Smiddy
President, CEO & Director

Okay. Thanks, Frank. Specialty Insurance net written premiums were up 16% in the fourth quarter with strong renewal retention ratios, rate increases on most lines of coverage, new business growth and an increasing premium production in our new specialty underwriting subsidiaries. Our E&S premiums grew by 21% in the quarter and 33% for the year, so we ended the year with $611 million of surplus lines direct written premium.

As I mentioned in my opening remarks, in the fourth quarter, Specialty Insurance pretax operating income was $228 million, while full year 2024 pretax operating income was $848 million, and the fourth quarter combined ratio was 91.8%, while the full year combined ratio was 92.2%. The full year combined ratio was 2 points higher than the full year 2023 combined ratio, which reflects the anticipated lower level of favorable prior year loss reserve development, somewhat offset by an improvement in the 2024 current year loss ratio. So given these top line and bottom line results, we continue to grow at a strong clip and at a very profitable level within Specialty Insurance.

Providing some more color and details. The loss ratio for the fourth quarter was 64.1%, including 2.4 percentage points of favorable prior year loss reserve development, and that compares to 65.1% last year that included 5.1 points of favorable development offset by an increase to the 2023 current year loss ratio in the fourth quarter of '23.

The expense ratio was 27.7% in the fourth quarter, and that compares to 26.9% last year, while the full year expense ratio was 28.1%, and that compares to 28.2% for the full year 2023. So these results are right in line with expectations and those ratios are holding steady for us.

Now turning to property catastrophic losses that impacted the industry as a result of the Los Angeles wildfires. First, of course, our thoughts remain with all of those in the disaster areas, which includes about 100 of our associates. You may recall, we write less catastrophic exposed business than most of our peers. So currently, we estimate our ultimate L.A. wildfire losses to be between $10 million and $15 million.

Now to provide you with some details on commercial auto and workers' compensation. Commercial auto, net premiums written grew 15% in the fourth quarter, while the loss ratio came in at 77.9%, and that compares to 78.3% last year. The full year loss ratio was 72.4% compared to full year '23 of 71.5%. Rate increases for commercial auto were approximately 10%. And consistent with what we've said in the last several quarters and really several years, those rate increases are commensurate with the loss trends that we're observing.

Workers' compensation net premiums written were about 1% higher in the fourth quarter while the loss ratio came in at 35.5% compared to 42.6% last year, obviously, a lot of favorable development, both this year and last year. The full year loss ratio was 48% compared to the full year 2023 loss ratio of 41.4%.

Loss frequency for work comp continues to decline, same story that we've seen for many years now, while the loss severity trend remains very stable. So given the higher wage trend within payroll, which again, as a reminder, is our rating base, so that's a benefit for us, and given the declining loss frequency trend, the stable loss severity trend, our rate decreases of about 4% allow us to remain at a competitive and an adequate level when it comes to our current rates on workers' compensation.

So we expect solid growth and profitability in Specialty Insurance to continue into '25, which reflects the success of our Specialty strategy and our operational excellence initiatives. We also expect continued growth and contributions from our new Specialty underwriting subsidiaries that we've talked about.

So I'll now turn the discussion over to Carolyn to report on Title Insurance. Carolyn?

Carolyn Jean Monroe
President

Thank you, Craig. The Title Insurance Group reported premium and fee revenue for the quarter of $702 million. This represents an increase of 9% from the fourth quarter of 2023. Premium and fees produced in our direct operations represented 23% of revenue versus 21% in the fourth quarter of 2023. Directly produced premium fees were up 24% from the fourth quarter of last year, while agency produced premiums were up 5%.

As shown in our recently enhanced financial supplement, new open title orders in our direct operations were up 26% during the fourth quarter of 2024 compared to the fourth quarter of last year. Nearly 1/3 of the new residential orders during the quarter were refinanced transactions, continuing the trend that we saw last quarter.

The fourth quarter included some large commercial transactions from our direct operations, pushing up our average revenue per commercial order. Total agency and direct commercial premiums increased moderately for the quarter and represented approximately 23% of net premiums earned in the fourth quarter of 2024 as compared to 21% in 2023.

Our pretax operating income of $55 million was an increase of 26% over fourth quarter of last year, bringing our full year pretax operating income to $144 million. We're pleased to report that our combined ratio for the quarter was 94.4% compared to 95.5% during the fourth quarter of 2023. This is an improvement of over 1 percentage point, driven by a combination of increased revenue and expense management.

2023 and 2024 were challenging years for the real estate market. During the year, we watched the market pretty much bounce along the bottom and prepared for things to turn. Our 2024 revenues improved slightly over 2023 as buyers became accustomed to higher prices. Slightly improving rates, coupled with strong homeowner equity pushed up refinance activity and newly built homes are starting to ease our inventory levels.

We start 2025 mindful of where the market has been and encouraged by improvements in the broader economy and the overall direction of order counts of our direct operations. Our agency operations continue to assist agents with growing their market coverage. We are refocusing our technology efforts on integrated solutions that enable our agents to seamlessly connect to our customer portal. This will make it easier to do business with us regardless of which closing software is being used by our title agent. There will be more to come throughout the 2025 on these technology solutions.

Thank you. And with that, I'll give it back to Craig.

Craig Richard Smiddy
President, CEO & Director

Okay. Carolyn. Thanks. So profitable growth continued in Specialty Insurance in 2024, and we remain very optimistic for Specialty Insurance in 2025 and beyond. And in Title Insurance, we've remained profitable and our optimism is increasing as revenue has shown modest growth over the last few quarters.

Overall, our strong 2024 operating performance drove solid earnings per share, solid operating return on equity and solid book value growth, which enabled us to return a record amount of capital to our shareholders in 2024.
So that concludes our prepared remarks, and we'll now open up the discussion to Q&A, where I'll answer your questions or I'll ask Frank or Carolyn to help me out.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Gregory Peters with Raymond James.

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

So I guess for the first question, and I know -- I appreciate the commentary you provided on the General Insurance business. As I was going through the supplement, I was particularly struck by the growth that you reported in general liability, in the home and auto warranty and in the property business on a year-over-year basis for the full year.

So maybe -- and I know maybe some of this is tied in with some of the new business initiatives, but maybe you could dissect those 3 segments or subsegments and tell us what are the drivers there for the growth.

Craig Richard Smiddy
President, CEO & Director

Sure, Greg. Right. So indeed, a good amount of those premiums are coming from our new underwriting subsidiaries. When it comes to property, for instance, you have Inland Marine, one of our new underwriting subsidiaries is producing meaningful premiums. And as we noted in the footnote there, the property includes our Inland Marine coverages. And our E&S operation is also producing meaningful premiums at this point, and that contributes to both property and general liability growth as well.

And then on home and auto warranty, actually, home warranty is down a bit, as you might expect because of the real estate market, and a lot of those home warranty products are provided in conjunction with the sale of a new home. But on the auto warranty side, we've entered into several new auto warranty agreements and the auto warranty is producing some fairly significant growth there.

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

Just related to the Specialty Insurance segment, the biggest line of business for you by far and away is the commercial auto business. You talked about rate increases there. Maybe you could spend a minute and give us perspective on what you see going on from a competitive landscape perspective?

Craig Richard Smiddy
President, CEO & Director

Sure. I would first just reiterate what we've now said for several quarters and several years and that is that we have been -- since things really started to go sideways in 2018 and 2019, with respect to severity and legal system abuse and those things that are contributing to that severity, we have been very diligent at monitoring severity trend on a real-time basis, adjusting rates as we go along. And we have now, since that time period, 5, 6, 7 years, been getting double-digit rate increases commensurate with the trend that we're seeing. So we have stayed on top of it.

As such, we've had favorable development compared to the industry, which has had unfavorable development. We've seen actually favorable development. And if you think about the fact that we jumped on it early, that we monitor it as closely as we do and get rate changes commensurate with those severity trends, that compounding of rate has served us well and we are comfortable that as long as we stay current with the trends we're observing, we'll continue to be able to produce a profitable result there.

So the industry, it really varies because as you know, you still have -- over the last year, we've seen a lot of competitors put up on favorable development and they've reacted in different ways. A lot of them raising rates substantially, which has created some opportunity for us, given that we've been more steady over the course of the last 5 or 6 years. And when it comes to severity, it seems like from some of the commentary of those competitors, they're still pointing to severity as the reason for their unfavorable development. But that's not a new story for us.

We recognize that severity back in '18 and '19, and we've stayed on top of it. We made major corrections immediately, where we were getting rate increases that were upward toward even the high teens there for a while. And then we've just been getting the necessary rate increases since then in the 10% range to stay consistent with the severity trends we're seeing. So it seems like we're very comfortable with where we're at and that others are still trying to react and figure things out.

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

Makes sense. That's good color. I guess for the last question. Ordinarily, Carolyn, I have one for Carolyn, but actually I'm going to change course and ask Frank a little bit about the investment portfolio.

And I know with the yields having gone up in the last couple of years, I know there is a pivot a little bit away from the equity investment side, but it seems like that's kind of stabilized. So from a big picture perspective, just where are we with new money yields versus where the portfolio yield is? Have you done anything with duration? And what's your updated view on the balance between fixed income and equities?

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

All right, Greg. I could dig into that a little bit. So I'll start with your last question. Where we're at now, which is about 84% in fixed, 16% in equities, we're pretty comfortable at that level, and we're poised to go either way up and down if we have to, depending on the opportunities that are out there, but we're comfortable with where we're at.

As far as new money, we are putting -- for the year, we were reinvesting at about 4.8% on corporate bonds. And the portfolio yield right now is at 4.5%, that fixed income portfolio. So there's some room to go up, but there's -- that's definitely slowing down. As far as duration and credit quality and all that, we have not made material changes in that arena. So it's a pretty steady state, I would say, poised to move where there's opportunities.

Craig Richard Smiddy
President, CEO & Director

Yes, Greg, I would just add to that, that although we look at duration and we have some flexibility in our investment portfolio, we do try to match our liabilities so that the duration is reflective of our anticipated payment on those liabilities. So we follow that principal, and that still leaves us some flexibility. But as Frank said, generally, our duration is consistent with what we believe we need to do relative to our anticipated liabilities.

Operator

[Operator Instructions] We'll take our next question from the line of Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I wanted to ask some capital management questions. And maybe just sort of review and see if there's any changes in how you are thinking about your current capital position given special dividends and dividends in the buybacks that you've done so far.

And maybe you could talk a little bit about the trade-off of capital usage, particularly looking at dividend versus stock repurchases. What's your thinking in that at the moment?

Craig Richard Smiddy
President, CEO & Director

Sure, Paul. I'm happy to talk about that. So one of the nice things that we had to deal with, if you want to call it a problem, it's really not, is that as much as we've been returning to shareholders over the course of the last 3 or 4 years, we continue to refill the coffers, if you will, with very strong earnings and retained earnings.

So while we've tried to eliminate excess capital, we keep creating excess capital. So we made a decision in the fourth quarter with the Board that we would issue the $2 special dividend as a way to return capital more quickly in a single shot, so to speak, and get us to a level that is more consistent with an appropriate capital level. And at the same time, we retained our ability to continue to repurchase shares. And as Frank noted, we have about $200 million still on that current share repurchase authorization.

And as we said at the beginning of our share repurchase programs over the last few years, we are sensitive to price. And when we look at repurchasing shares, we will look at where we're trading and relative to our peers and where we see things. And so we do either accelerate or temper our share repurchases, depending on where we might be trading and we remain opportunistic in that regard. So that will continue. And those factors will all come into play next time we sit with our Board and again, review our capital position and the best, most efficient way to return capital to shareholders.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Is there a particular model that dominates how you consider what is excess capital or not excess capital at the moment?

Craig Richard Smiddy
President, CEO & Director

Yes. I wouldn't say there's a particular model. We look at many different dimensions and measures when we look at capital. And we, of course, look at liquidity as well and if we believe we have substantial liquidity and we have substantial capital. We then look at how much we think we might have in the way of excess capital, looking at various different leverage metrics. And of course, looking at our RBC ratios, looking at -- and having conversations with our rating agencies.

So there's a lot of quantitative and qualitative analysis that comes into play when we look at our capital position. But right now, even with the special dividend and the share repurchases, all of our conversations, all of our metrics would continue to suggest that we certainly have sufficient capital and even some cushion beyond that.

Operator

We have no further questions at this time. I'll hand the call back to management for any concluding remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well, we, here at Old Republic, feel very good about the fourth quarter. We feel very good about 2024 and what we've been able to deliver to all of our stakeholders and our shareholders. And we remain even more optimistic when we look out at 2025, given the various initiatives that we have underway, given where we sit today. And again, we wish you all well in 2025 and look forward to seeing you next quarter, and we'll continue to report on our progress.

So thank you all very much, and have a great day.

Operator
Everyone, that will conclude today's call. Thank you all for joining, and you may now disconnect.