S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

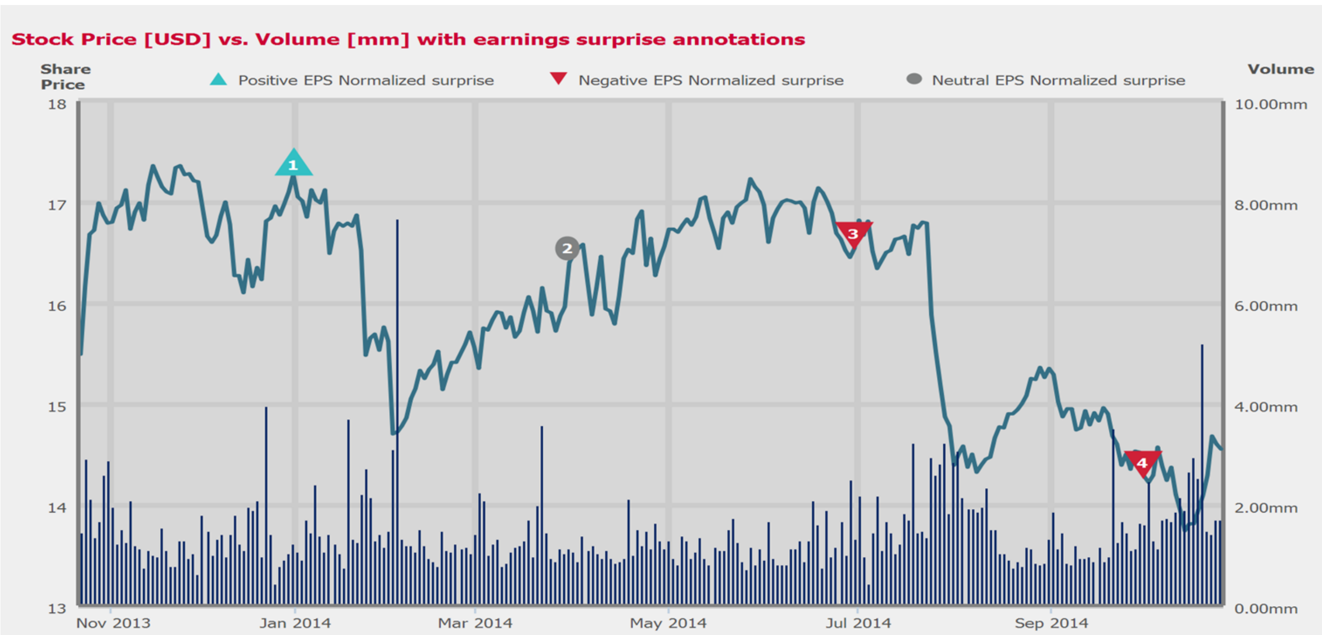
FQ4 2014 Earnings Call Transcripts

Thursday, January 22, 2015 8:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.24	0.21	(12.50 %)	0.27	0.80	0.84
Revenue (mm)	1312.00	1365.50	4.08	1303.75	5465.00	5258.30

Currency: USD
Consensus as of Jan-22-2015 4:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.20	0.33	57.14 %
FQ1 2014	0.24	0.25	0.00 %
FQ2 2014	0.26	0.13	(50.00 %)
FQ3 2014	0.26	0.25	(3.85 %)

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Rande K. Yeager
Chief Executive Officer and President

Scott Eckstein
Director of Account Services

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JMP Securities LLC, Research Division

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Stephen Mead
Anchor Capital Advisors, LLC

Steven William Charest
Divine Capital Markets LLC, Research Division

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, and welcome to the Old Republic International Fourth Quarter 2014 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded. I would now like to turn the conference over to Scott Eckstein with MWW. Please go ahead.

Scott Eckstein
Director of Account Services

Thank you, operator. Good afternoon and thank you for joining us today for Old Republic's conference call to discuss fourth quarter and full year 2014 results. This morning, we distributed a copy of the press release. If there is anyone online who did not receive a copy, you can access it at Old Republic's website, which is www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated January 22, 2015. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Karl Mueller, Senior Vice President, Chief Financial Officer; Rande Yeager, Chairman and Chief Executive Officer of Old Republic Title Insurance Companies; and Al Zucaro, Chairman and Chief Executive Officer.

At this time, I'd like to turn over -- the call over to Al Zucaro for his opening remarks. Please go ahead, sir.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Thank you, Scott, and good afternoon to everybody. And as always, we -- we're appreciative of your interest in our company and keeping up with it. In the recent times, those of you who follow us may recall, we've had 4 of us handling these calls. And this time around, there are just 3 of us, namely as was just indicated, Karl Mueller and Rande Yeager and myself. Scott Rager, who usually handles the General Insurance portion of this discussion, had a scheduling conflict to deal with, so I'll start the discussion today with some comments relative to General Insurance, and which, as you know, is our largest segment of business.

And so with regard to this segment, the long and the short of what we reported this morning is that both the final quarter of last year, as well as all of 2014, that for those periods, our General Insurance business just did not perform very well. Certainly, not as well as we had anticipated at the beginning of the year. And most certainly, not as well as it is capable of performing in good times and bad times.

But at the risk of sounding self-congratulatory, I do think that we did a decent job of explaining the results and the reasons for the bad news in this morning's release. And in it, you will see that, of course, that the key drivers of this news are the adverse developments of prior year's claim costs, which as we've reported fairly consistently in the recent past, have trended up with some regularity through most of the -- these years, the last 2 or 3 years, through year-end 2014. And this aggravated state was much more pronounced in the final quarter of 2014.

Most of you, if not everyone, are familiar with the fact that we do publish a statistical exhibit concurrent with the issuance of our press release, and that exhibit is on our Old Republic website. And if you look at the statistical data, it'd be -- and you were looking at it for each of the consecutive quarterly financial supplements we -- that are posted on the website, you would see that claim ratios in 2 very important lines of our business -- of our General Insurance business, namely the workers' compensation and general liability line, have reflected loss ratios averaging close to the mid-80s in the past couple of years. And in this last quarter of 2014, we think that we pressed harder, if you will, on the gas pedal to obtain as much -- or the greatest amount of assurance that we could get, that we would get in the closest proximity of what ultimate claim costs would be by adding a greater amount of money to cover the remaining case reserve levels for years prior to 2011. The years -- the most current years of '12, '13 and now '14, while as we like to say in the trade, are the greener years of the business, so far, so good, they're performing very much according to expectancies. And of course, those are the years also which have -- where we've had the good fortune of being able to increase rates significantly, and rejigger the book of business to achieve what we believe will be good results for those years.

But turning back to these statistics of loss ratios and more specifically, if you look at Page 4 of the latest financial exhibit, you can readily see that the workers' compensation claim ratios jumped to, goodness, 103.6% in the 2014 final quarter, and that's up from an average of about 81.5% in the preceding 7 consecutive quarters. So clearly, as I said before, we did put -- press on fairly hard on the gas pedal of reserve increments in this final quarter of the year.

On the other hand, the general liability line, which is also an important line of business, but nonetheless is much smaller than the workers' compensation line, that its ratio has remained stuck at a much too high level of 96%.

As we indicated in prior reports, written reports, as well as in discussions such as we're having, these high loss ratios stem principally from case reserves that were not established at fully-expected levels for one reason or another. Or said another way, they're just -- they were just deficient by the time we either took another look at them or by the time that we settled the losses that have emerged in the past couple of years in particular, and which to a large degree, relate to accident years of 2011 and prior.

These case reserves -- reserve inadequacies, we firmly believe, are the root cause of the adverse developments we've quantified in this earnings release. As you see, we quantified the effect of these developments, in terms of the percentage effect that they had on claim ratios that we show on Page 3 of the release for the General Insurance business. So if you want to get to the actual dollar effects, all you need to do is to multiply these percentages by the premium amounts that you see there and the dollar effect of the adverse development comes out to about $71 million for the fourth quarter of 2014 and about $108 million for the year as a whole. So again, you can readily see that most of the damage in terms of recognizing some reserve deficiencies and trying to do something about them took place in the final quarter of this year, as we got increasingly comfortable with the statistical development of the data of prior years. Now that's -- by no stretch of the imagination, that's a lot of money and it goes to explain substantially all of the reduction in 2014 pretax earnings vis-à-vis the related earnings for the preceding year of 2013.

So someone might fairly ask the $64 question, as they say, and that is whether we've now put enough money to stem or hopefully preclude a reoccurrence of this level of adverse loss development. Well, we believe that the answer to that is a realistically qualified yes, inasmuch as the largest portion of our business is functioning very well, I would say exceptionally well. And the problem blocks of business have been undergoing substantial redirection and refocusing over the past couple of years or so. And all of that has been done to achieve a better balance of business. And the actions we've taken in these regards are twofold. First, and I believe we've said this before, first, we've been moving the -- or changing gradually the geographical spread of the business to reduce some concentrations that we've had in certain Western and Eastern states that are not usually hospitable, if you will, to the exercise of underwriting discipline for one reason or another. And secondly, we've been reconfigurating [ph] the product mix, particularly in the workers' compensation line, to emphasize alternative market and similar product offerings that can result in a reasonable degree of risk participation by both the -- us, the insurance company, and our assurers. Admittedly, this tends to affect the larger assurers, which incidentally, again, represent the biggest portion of our commercial lines of business. So with this, we're reasonably confident that the combination of these 2 fixes are going to work and will lead to a restoration of the long-term underwriting success that Old Republic has had for decades.

And as I've already said, I might add, our General Insurance business is performing very well in most other regards. Pricing improvements continue to stick, and we're still getting a modicum of increases here and there for our -- in our various parts of the business. The retention levels of the business we want to keep is continuing and remains at very high levels. And we're getting a look-see at reasonably large amounts and numbers of products and accounts seeking a new home, and we are successful in getting, I would say, even more than our share of those offerings.

So we're -- bottom line, we are growing very nicely organically. And the market acceptance and -- is welcome of our brand is as strong as it's ever been. So again, all of that to say that I think we need to keep these -- the adversities of these loss developments in perspective, and that I think all of us can rest reasonably assured that we're going to fix this baby and go on to bigger and better things.

So having said that, I guess we'll turn it over to you, Rande, to comment on our very vibrant title operation.

Rande K. Yeager
Chief Executive Officer and President

Absolutely. Appreciate it. Thanks, Al. Title company had a pretty incredible fourth quarter. And as we reported this morning, we produced $40.5 million in pretax profits, and approximately $473 million in premium and fees. This is the best fourth quarter in our history and, believe it or not, the second best quarter of all time. You actually have to go back to October of 2003 to see larger profits. For the year, our pretax profit was $99.5 million, compared to $124 million in 2013. While it's down a bit, it's an outstanding result when you consider that the mortgage origination market was off about 40% from 2013.

Behind the numbers are continuing emphasis on expense control, the favorable development, as you can see, of prior years' claims, and our commitment to staying the course and adhering to our operating philosophy generated pretty exceptional results. Our commercial division continues to accelerate its penetration in the market and our owned and agency operations are showing strong growth in their respective arenas. But to all of us here, and most importantly, we believe our people are making the big difference in our company.

As for our prospects, we still believe that our bread and butter, the housing market, will show a slow but steady recovery. Mortgage Bankers Association in their latest predictions in December said that they expected a 6% growth in mortgage originations for 2015. I believe that the number's likely will be revised upwards, because interest rates have dipped to their lowest level since May of 2013.

But just to sum it up quickly, we're optimistic about our potential for growth, not only as a contributor to the Old Republic family, but also within the title industry. And there's a lot to say about the title company, but certainly, this quarter, the numbers speak for themselves.

And with that, I will turn it over to my esteemed colleague and friend, Al Zucaro.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. I'll just add a few words before Karl Mueller takes over and has his say about our -- the financial aspects of the business. And also, a few words about the RFIG runoff, which now, we believe, is performing as expected in the waning years of the runoff. The MI portion, in particular, is operating in a very exceptional -- exceptionally well-managed load in what is an increasingly stable industry-wide environment. And when you look at the key factors that drive that business, defaults are declining, cure rates are improving, housing values are going up in most parts of the country and mortgage money is increasingly more available at reasonable terms for borrowers, and all of those things are good for the mortgage guaranty business, whether it is an active business or, as is the case with us, is operating in a runoff load.

When we look at the CCI part of this runoff business, and as you know, CCI is a product that has some great similarities to mortgage guaranty, that business is also reverting to greater stability. Its results are also improving. If we leave aside the ongoing saga of a couple of litigations, which are both sapping energies in that business, and of course, its bottom line, particularly by virtue of the legal costs that are being incurred in an attempt to resolve the litigated issues.

As you may recall, as you can see also in the news release, around midyear 2014, we settled a reasonably large case for a sum, unfortunately, that was substantially greater than we had anticipated. And that settlement, together with these ongoing legal expenses, are the main reason that CCI performance in 2014 is looking much shabbier than that of 2013.

I think we've mentioned in the past, I think -- I'm reasonably sure we have, and as we state in our public disclosures, we strongly believe that we have very meritorious defenses and sound grounds for resolving the largest of the remaining CCI litigation, which is with one of the largest banking institutions in this country, that we can settle that litigation, in particular, in a manner and at a cost that can fairly allow both parties to be done with it in an equitable and rational way.

So having ever so briefly covered this RFIG runoff, as I said before, we'll now turn this meeting to Karl Mueller to cover his part of this visit.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay, thank you. As shown in today's news release, Old Republic's financial condition really hasn't changed substantially since last reported as of the end of September. The cash and invested asset balance of roughly $11 billion is up ever so slightly from amounts reported at both the end of the third quarter of this year, as well as the prior year end. As we've previously disclosed, the composition of the total portfolio has evolved over the course of the past several quarters, and it's been done so to emphasize a greater commitment to high-quality, dividend-paying common stocks, in an effort to diversify the portfolio, as well as enhance the net investment income to the company.

As a consequence, the composition of the investment portfolio at year-end 2014 consisted of approximately 82% of the portfolio allocated to fixed maturity and short-term investments and 18% towards equity securities. By comparison, the same ratios at September 30 were 86% and 13%, respectively. I guess that should be 14%.

The majority of the fourth quarter growth in equity securities occurred in certain noninsurance subsidiaries, as the proceeds from our third quarter debt offering that were held in short-term funds at the end of September were invested in equity securities during the fourth quarter of this year. The equity portfolio also benefited from higher market appreciation during the fourth quarter.

At year-end 2014, the equity portfolio consisted of approximately 13% committed to indexed mutual funds, 59% to blue-chip stocks that have a long and stable dividend-paying history and the remainder is primarily invested in utilities. As indicated in the release, investment income rose almost 12% in the fourth quarter and by a little over 8% to $345 million for the full year, and that's by comparison to the same periods of 2013.

The higher investment income is attributable to higher invested asset base, in combination with the benefit from the higher-yielding equity portfolio. I would just add that the credit quality of the fixed income portfolio remains unchanged at year end and it still has an overall A rating.

Consolidated claim reserves were relatively flat at year end by comparison to September 30. On a year-to-date basis, consolidated claim costs have developed slightly deficient in relationship to the prior year-end loss reserves. And by contrast, the company reported favorable development on a consolidated basis for all of 2013.

The most significant contributors to this year's unfavorable reserve development includes: The CCI claim settlement that we noted back in the second quarter; lower favorable development of Mortgage Insurance claim reserves; more favorable development of title claims; and further escalation of prior year's workers' comp and GL claims, as was mentioned by Al earlier.

Shareholders' equity as of year end was $3.9 billion or $15.15 per share, which represents a year-over-year increase of $0.51 per share or roughly 3.5%. That, combined with the book-value-based cash dividend yield of 5%, resulted in a full year 8.5% return on book value to our shareholders. And finally, the capitalization ratios that are shown on Page 7 of the release are unchanged from those reported September 30.

So there you have the financial highlights of Old Republic's current financial condition, and I'll turn it back to Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So to summarize, again, we think that our General Insurance business is going to look better in 2015. I think that our Title Insurance business is going to continue to bubble, as it has. I think that the RFIG business is going to remain very stable, save for the possibility, which always exists, that the litigation costs might still be higher than they should be, and that our finances are going to remain in very good shape. We've got great liquidity in -- throughout the system, great liquidity at the holding company parent, which a lot of that, as Karl mentioned just now, came from the debt offering that we had at September or thereabouts of last year. And as we indicated in the prospectus, in addition to the liquidity that it provided us, it gave us the ability to move capital funds wherever they might be required in our system and to solidify the capital structure of individual subsidiaries and/or otherwise enhance their ability to take advantage of growth opportunities that might come about at a faster clip than was otherwise expected.

So that's the long and the short of it. So we'll open it up to questions as was said at the beginning of this session.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I guess just to start off with a little bit of prospective question here. So on the 2 new joint ventures that you guys announced on Monday, I was just hoping we could touch on the, I guess, the potential size that those 2 units could reach in terms of premium production and then what types of lines and programs, and then the public side of it was kind of broadly mentioned, but just kind of curious more specifically the lines in there. And then maybe if we could define what was exactly meant by the alternative market insurance needs that was referenced as well.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, we approach each new venture, whether it's a joint venture such as this one or a new internal organic type of growth objective by looking at the potential of that initiative to grow to $100 million of premiums in, as a minimum, fairly quick -- in fairly quick order. And by that, I mean over 2- to 3-year, at the end of 3 years, potentially achieving that level. So over the years, we have done somewhat better than that in some cases. In other cases, somewhat less than that. But that's a bogey [ph] for us, about $100 million at the end of 3 years. We think that this joint venture that we just announced, which is similarly structured to other ventures we've done over the years, and we've done more than a couple of dozen of them, it will be capable of achieving that kind of objective. I had trouble getting the second part of your question.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I guess I was a little unsure of what alternative market insurance needs. What that's actually defined?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay, yes. As we said in the release the other day when we announced this venture, we categorized it basically as representing an extension of stuff, of things that Old Republic has done for decades. Well, quite frankly, since the end of the 1940s, so we've been at it a long time. And so when we describe this business as involving alternative market approaches to the delivery of insurance products, we're talking about the use of retrospective arrangements, we're talking about the use of captive insurance company arrangements. Any type of arrangement that leads to a participation by the assured or the producer of the product to have a stake in the business as opposed to just being a commission-oriented type of relationship with the producer. So the difference that you might ask, well, if you're already in the business, what's the difference with this thing? Well, the difference with this thing is that it is going to be focused on particular sections or segments or parts of the alternative market, including program administrator type of business that Old Republic has not heretofore been involved with to any significant degree, if at all. So it is both a continuation or extension, as I say, of something we do, as well as an opportunity within our sphere of competence to do something in addition. Does that answer your question?

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

It does, all very helpful. And then I guess kind of more retrospectively here, when we look at some of the loss cost inflation acceleration, at any point, does this look like business that you wrote, maybe in retrospect the risk profile is a little bit different from what your underwriting targets were? Or is this purely very specific examples, and you mentioned on the case side, where claims are just costing more?

And I guess to frame the question, I'm just trying to understand if there's anything on the upfront risk selection side that's partly responsible for the claims escalation?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, to some degree, as I said, we are reconfiguring as a business a lot of it to do more, to offer and underwrite more product that has got some risk or exposure sharing with the assured than was the case in prior years with some blocks of business. So that is a change, and that is a change that recognizes that some of the stuff we wrote on a traditional risk-transfer basis simply did not work for a variety of reasons. Some of it may have been the delivery channels, some of it may have been just mispricing, bump pricing on our part. Some of it was certainly due to the impact of the recession on the risk transfer business, and some of it may have been due to being involved in parts of the country which, as I said before, are not particularly hospitable because of competitive or other reasons to doing the right thing from an underwriting standpoint all the time. So these are not excuses, they're just explanations of what has occurred and what it is that we're trying to fix.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And just one, hopefully a quick one, I'll let some others join in. But -- so thinking about the MI side, so should we think about the confluence of low mortgage rates, kind of again here, cheap gas prices, I'm just wondering if that accelerates the runoff of MI in terms of the risk. And then secondly, if it elevates the prominence of delinquent loans in the self-cure process? Just with some fuel savings that borrowers might have in their pockets, is that kind of -- do you guys agree with that or am I just being a little too optimistic there?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, if I follow the thrust of your question, Vincent, I would say this, that anything that happens, anything that's done to improve people's post-tax income, money that stays in their pocket, whether it's due to gasoline prices falling, or income taxes coming down, or interest rates going down or stabilizing, or mortgage money being extended at a faster clip, and housing values going up, all of those things are all very positive for mortgage guaranty or other credit guarantors. So what that means is that there is a chance that if you have an increase in the momentum affecting the transfer of homes that, that could speed up the reduction in the in-force business of our Mortgage Guaranty business in particular, and thereby, accelerate the timing when -- the time -- or advance the time, I should say, when those loans that are on the books today, will extinguish themselves for one reason or another. So the bottom line is that it's all positive, we believe. Everything that's happening in the economy now, in housing and housing finance, we think are all very positive things, particularly for a runoff book of business.

Operator

We'll take our next question from Steven Charest with Divine Capital Markets.

Steven William Charest
Divine Capital Markets LLC, Research Division

Thinking about the business cycle here, and we've talked about -- you've given us ahead of time the advance warning that you were going to attend to greater reserving, and you've done that, which has been very favorable, I think, to the company. But in terms of looking at the cycle and workers' comp, you've mentioned briefly before that you see the expenses going higher. Do you have a sense of where we are, considering that things are new, that things are still cyclical and where workers' comp is in that cycle?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. I think that the moment you see interest rates going up, therefore, the ability of insurance companies to invest float and higher yields that, that will ring the bell on the top of the cycle, insofar as far as comp is concerned, or insofar as just about any long tail line of insurance. I mean, the insurance business in these areas is a very efficient competitive business. And there is a recognition by insurance buyers that insurance companies make money in 2 ways. One on the underwriting side, one on the investment side. But the markets are so efficient that they do not allow companies to make money on both sides at the same time. So that's the best way I know of, of explaining when we will reach the top of the market, the top of the cycle. And if you're to believe what is being said about the Fed and so forth, that sounds like, and all of that by midyear, by the fall of this year, if interest rates start creeping up again, then I think there'll be a stop to an ability to increase prices, and then it will be a battle to keep business at a reasonable price on the books.

Operator

We'll take our next question from Stephen Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

Going back to workers' comp, when you were making the comments that the business that you had -- that you were writing into workers' comp, in the most recent year, and I think you referred to '13 and I don't know whether you went back to 2012, I was curious what the sort of composite ratio of that sort of part of the business was. And as you look at sort of how large is that relative to all the premiums on the workers' comp side.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, in the comp side in particular, Steve, maybe, I don't know, 6, 7 years ago, the mix between what we refer to as traditional risk transfer business and what we refer to as risk management or alternative market type of business, was around 60-40, 65-35, in favor of risk management and alternative market approaches, which have the objective, as I've said before and as you know, of having a greater participation by assureds in the risk transfer mechanism. And what happened maybe 5, 6 years ago by virtue of both what we did on our own, as well as a couple of -- by virtue of a couple of books that we bought, that the mix changed to more of a almost 50-50 type of ratio. So that the balance that we had achieved in favor of risk management was reduced significantly. So the objective now, as I indicated before, in changing both the geography of the business as well as the components between traditional risk transfer and risk management, the objective now is to redress that balance and aim again for a 60%, 65% configuration favoring risk management.

Stephen Mead
Anchor Capital Advisors, LLC

And your sort of underwriting results in that business, and you said it's more green...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

In which business?

Stephen Mead
Anchor Capital Advisors, LLC

Well just the -- in terms of the risk management business.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. Well, those results have always been better than in the traditional risk transfer business, because again, you've got the additional protection of having an assured have a stake in the insurance relationship. And whenever money is on the line, things always work out better for all involved. That's not a secret.

Stephen Mead

Anchor Capital Advisors, LLC

Okay. And just on Page 5 of just the general press release, the cash flow went from 2014 versus 2013 is a reference to when you exclude the runoff business -- I mean that just -- on a year-to-year basis, that meant that the RFIG business on a cash basis had a tremendous swing from 2013 to 2014, correct?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. And that was due -- yes, that was due, Steve, to what Karl mentioned, and that is that in July of last year, we paid off those deferred payment obligations of, what?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

$657 million, roughly.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, right. So that's the big difference, so that's why we put those 2 sets of numbers in the release to provide that perspective.

Stephen Mead
Anchor Capital Advisors, LLC

Okay, no I certainly missed that. The other thing on the title business, in terms of the favorable results in the fourth quarter, is that repeatable? I mean, is there something nature about sort of where we are in the cycle that would suggest your claims will remain lower, or do they revert back to sort of more historic numbers?

Rande K. Yeager
Chief Executive Officer and President

Do you want...?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, yes, go ahead, Rande.

Rande K. Yeager
Chief Executive Officer and President

I was going to say, you know what, there's a different quality about loans now, many of the fines, the reactions that came down regulatory-wise speaking, have really cleaned up the loans that we insure. And that goes a long way towards mitigating bad claim years. The claims are never a big deal relative to your gross revenues in the Title Insurance business. But we're seeing really favorable development. And maybe there's a long-term trend for them to come down a little bit. Is every quarter going to be the same? No, of course not. But I think we're going to continue to see -- when you look back at decades' worth of factors, we generally think we have about a 20-year tail in the Title Insurance business as far as claims are considered. You can see considerable improvement over a 20-year period. And I think that's going to continue. It probably won't be as low as it was in the fourth quarter, but it can be. But I don't look for any big spikes in the business. There's just too many good things going on. Auditing is better, loans are better, the market that was created back in 2007, 2008 when everybody could get a loan created a lot of losses. And once we got past the financial crisis, certainly the real estate end of the financial crisis, a lot of companies that were in business aren't there anymore. The companies that are left are doing a much better job, whether you're an underwriter or an agent, and I think we're seeing the result of that. So my gut feeling is yes, we're going to see a continual, gradual improvement, just like we will in the housing market. But the fourth quarter was exceptional this year. But I'm not saying that it can't happen again. So we're pretty positive about it.

Operator

And we'll take our next question from John Deysher with Pinnacle.

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Just a quick question on the investment portfolio. What is the duration on the fixed income portfolio at this point?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Yes, I don't have the exact number in front of me. It's in the neighborhood of 4, 4 something, 4.25, 4.5. And it's not changed significantly for the past several quarters.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Both the duration and the average life of the portfolio about the same, John, they're in between 4 and 5%.

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Between 4 and 5%?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Between 4 and 5% -- 5 years, I should say.

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Okay, 4 and 5 years on the duration?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

5 years, average life, right.

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Average life, okay.

Operator

We'll take our next question from Christine Worley with JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

Most of my questions have been answered, I just had one sort of follow-up. On the reserve issues that you noticed on the case side, has that caused you to change your reserving methodology at all, or are all the changes more coming on the underwriting side?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, of course, our reserving has changed by virtue of the fact that we are, as I said -- we did put -- press on the gas pedal to try to see if we could attenuate or eliminate the impact of potential further reserve deficiencies coming out of cases. And I think you had a similar question, as I recall, last quarter, Christine. But in terms of reserving for -- big picture-wise, in terms of reserving for long tail lines of business, no. No, we take a long view. We use loss pick, Bornhuetter-Ferguson types of reserving approaches and monitoring approaches of those reserves quarter-to-quarter, with great fidelity we look at them. So nothing has changed there.

Operator

[Operator Instructions] We'll take our next question from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

So on the geography kind of reconfiguration, I just want to double check on that. Are we still talking California and New York there on the kind of East Coast-West Coast, nomenclature?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Correct.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

All right, perfect. And sticking with workers' comp, this is kind of -- you guys are early in the reporting cycle, this go-around, as usual. But coming off the heels of last quarter, we heard some instances of your competitors talking about getting a little bit more aggressive on workers' comp, just since they, in their case, feel that the returns are kind of becoming attractive. So as I think about how you kind of shift the workers' comp book and potentially a little bit more competition in the work comp space, I'm wondering if you feel that, that impedes your ability to get the rate that you need to get margins adequate, or do you still feel like right now you can get all the rate that you need in the current environment?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. Well, one of the things, pricing is always very important in any business, including comp or anything else, or even if you manufacture cars or what have you, price is important, so we have to consider that. But yes, the other thing is reputation. The other thing is value-added. The other thing is generally speaking, service. And in good markets and bad markets, we tend to keep our business, at least the business we want to keep. We always have retention rates that rarely go below 80%, and typically are in the high 80s, low 90s. And that has always said to us, okay, the people that we do business recognize that we're in this for the long run and we expect them to be in the long run. So they are -- we're always going to have price shoppers in any business, and we have our share of them. But by and large, we think we can keep our business because of the value-added proposition that we bring to the table. And I like to brag about the good name that we bring to the table.

Operator

It appears there are no further questions at this time. I'd like to turn the conference back to management for any additional or closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, we have none. And as always, we again very much appreciate everybody's interest in participating and listening to these calls and asking questions. And on that note, we'll -- I'll say you all have a good afternoon if you happen to be in the same time zone as we are, or good morning, or good evening. And we look forward to visiting with you after our first quarter 2015 earnings are released. So you all do well. Bye.

Operator
That does conclude today's conference. We appreciate your participation. You may now disconnect.