S&P Capital IQ

CONTENTS

RLI Corp. NYSE:RLI

FQ2 2016 Earnings Call Transcripts

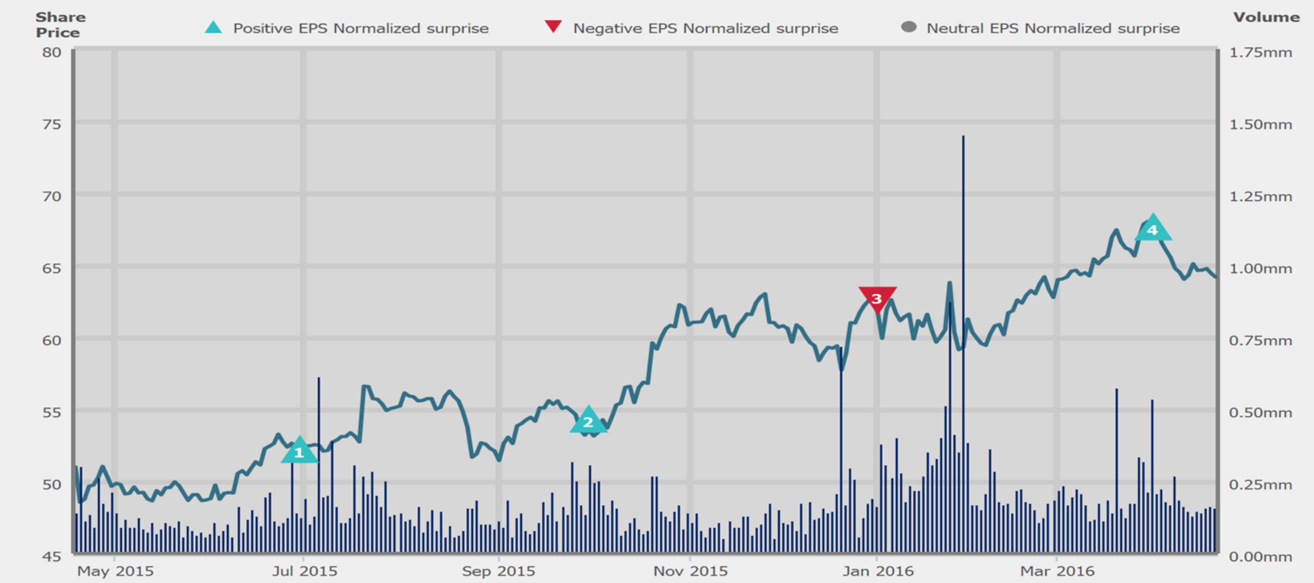
Wednesday, July 20, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.60	0.61	▲1.67	0.54	2.27	2.27
Revenue (mm)	190.38	195.98	▲2.94	196.60	785.45	793.58

Currency: USD
Consensus as of Jul-20-2016 10:01 AM GMT

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



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.54	0.77	▲1 42.59 %
FQ3 2015	0.58	0.70	▲2 20.69 %
FQ4 2015	0.64	0.56	▼3 (12.50 %)
FQ1 2016	0.49	0.54	▲4 10.20 %

Call Participants

EXECUTIVES

Aaron H. Jacoby
Vice President of Corporate Development

Aaron P. Diefenthaler
Chief Investment Officer, Vice President and Treasurer

Craig William Kliethermes
President and Chief Operating Officer

Jonathan E. Michael
Chairman and Chief Executive Officer

Thomas L. Brown
Chief Financial Officer and Senior Vice President

ANALYSTS

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Jeff Schmitt

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Ronald David Bobman
Capital Returns Management, LLC

Presentation

Operator

Good morning, and welcome, ladies and gentlemen, to the RLI Corp. Second Quarter Earnings Teleconference. At this time, I would like to inform you that this conference is being recorded. [Operator Instructions]

Before we get started, let me remind everyone that through the course of this teleconference, RLI management may make comments that reflect their intentions, beliefs and expectations for the future. As always, these forward-looking statements are subject to certain risk factors, which could cause actual results to differ materially. These risk factors are listed in the company's various SEC filings, including in the Annual Form 10-K, which should be reviewed carefully. The company has filed a Form 8-K with the Securities and Exchange Commission that contains the press release announcing the second quarter results. RLI management may make reference during the conference to operating earnings and earnings per share from operations, which are non-GAAP measures of financial results.

RLI's operating earnings and earnings per share from operations consist of net earnings after the elimination of after tax realized investment gains or losses. RLI's management believes this measure is useful in gauging core operating performance across reporting periods but may not be comparable to other companies' definitions of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings.

The Form 8-K and press release are available on the company's website at www.rlicorp.com.

I will now turn the conference over to RLI's Vice President, Corporate Development, Mr. Aaron Jacoby. Please go ahead, sir.

Aaron P. Diefenthaler
Chief Investment Officer, Vice President and Treasurer

Thank you. Good morning to everyone. Welcome to the RLI Earnings Call for the second quarter of 2016. Joining me on today's call are: Jon Michael, Chairman and CEO; Craig Kliethermes, President and Chief Operating Officer; and Tom Brown, Vice President and Chief Financial Officer.

I'm going to turn the call over to Tom first to give some brief opening comments on the quarter's financial results. Then, Craig will talk about operations and marketing conditions. Next, we'll open the call to questions, and Jon will finish up with some closing comments.

Tom?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Thanks, Aaron, good morning, everyone. The second quarter was another good one for RLI. Our primary focus remains to outperform the industry in underwriting profit, then, and an 85 combined ratio for the quarter is a testament to our continued success in that regard.

As with previous quarters, underwriting income was positively impacted from net favorable loss reserve development. In this case, $15 million spread across all 3 segments. The casualty segment led the way with $11 million of favorable development, followed by Property and Surety segments of $2 million each, respectively.

Slightly offsetting this benefit was $3 million of storm losses, a relatively benign level compared to prior years, with $6 million in 2015 by comparison.

Despite the inherent potential for quarter-to-quarter variability in both reserve, releases and storm losses, RLI's business model continues to benefit from our highly diverse product portfolio.

This applies to growth as well as profit. In the quarter, both the casualty and Surety segments demonstrated strength. Casualty gross premium -- gross written premiums grew by 7%, while posting a 90 combined ratio, while Surety group, 4% and posted an outstanding 75 combined ratio.

The Property segment's top line remains challenged, particularly for CAT-exposed products and this is reflected in the 14% decline in premium. Although absent the final drag from our exit from crop reinsurance, the decline was modestly better at 5%.

Despite these challenges, Property posted an excellent 81 combined ratio. In total, gross written premium grew 1% or 3%, excluding crop.

The investment portfolio continued to post strong returns with a 2.8% total return for the quarter and a 6.1% gain through 6 months. Declining interest rates and positive equity market conditions continue to drive positive performance.

With regard to our minority investment, Maui Jim, it turned in slightly lower income, although sales continued to grow modestly, foreign exchange impacts continue to dampen earnings.

One item to note, the noncash goodwill impairment related to our medical professional liability business. Due to continuing pricing pressures, leading to declining premium volume, coupled with some adverse loss experience reported during the second quarter, we reevaluated the fair value of this business and concluded the carrying value of this goodwill was in excess of fair value by $7.2 million.

Nonetheless, the business remains profitable, albeit at a lower premium level and higher combined ratio, and we remain committed to this business.

All in all, with strong underwriting and investment performance driving our results, operating income came in at $0.61 per share and book value per share is now up 12% in the first half of the year, inclusive of the dividends.

And with that, I'll turn the call over to Craig Kliethermes for further commentary. Craig?

Craig William Kliethermes
President and Chief Operating Officer

Thanks, Tom. Good morning, everyone. We recorded another solid quarter given market conditions. Gross written premium was up a moderate 1% for the quarter. Removing the impact of crop and the Facultative Reinsurance business we exited last year, our premium was up 4% on a gross basis and more than 5% on a net basis.

So our core portfolio is on a good trajectory in a challenging market. At the same time, we were able to deliver another sub-90 combined ratio.

We have made several investments in people, products and technology that are starting to gain traction. In addition, we have about 1/3 of our product portfolio that is related to the construction industry, which continues to rebound and provide more opportunity to us.

Let me provide some more detail by segment. In Casualty, gross written premium was up 7% in the quarter, which is similar to our year-to-date growth rate in this segment. We produced a 90 combined ratio. We continue to find opportunities both in our established products and within many that we have started in the last several years.

Our Transportation and P&C package businesses continue to grow at a double-digit pace for the quarter. Our Transportation business has opportunities resulting from carriers that were undisciplined in their pricing over the last several years. Many established markets appear to have endured enough pain for now, that they're taking a time out to reassess, for they're now charging enough so that we are more attractive to the risk.

Much of our package growth has come the old-fashioned way, pounding the pavement and visiting our producers and finding new ones that value our specialty products, service and narrow and deep expertise.

We continue to invest in new people and new products across our Casualty segment, and we are working hard to get more products online and to scale.

Many of these gained some momentum this quarter and we are hopeful what the future might bring.

Casualty rates are relatively flat overall, but we continue to see positive rate on most wheels-based business and in the smaller account nonmedical professional liability space.

However,, we are having to give back some rate in primary general liability, medical professional liability and now, on larger D&O risk to remain competitive. We are fortunate to have specialty underwriters, who understand that to outperform through all market cycles, selection is king.

Our Property segment was down 14%, while reporting an 81 combined ratio. More than half of the decline is due to the previously mentioned exits of Crop and Facultative Re.

The CAT business remains a very tough story, prices continue to decline at a double-digit pace. We've been able to offset a portion of the decline with the reduced reinsurance rates and we have found some opportunity by diversifying our exposures. This has helped us take some of the pressure off our returns and the bottom line.

On a more positive note, within this segment, our Marine and Hawaii Homeowners businesses grew profitably by staying focused on and targeting producers in classes where they have seen the most success.

Our Surety segment continues to grow profitably. We are up 4% for the quarter and 5% year-to-date, while posting a 75 combined ratio. Our long term presence, relationships and consistent predictable risk appetite are a big advantage for us in this segment. Surety was led by our miscellaneous product, which continues to grow at a double-digit pace. These are typically very small bonds where ease of doing business is a critical differentiator.

We continue to invest in technology to stay top of mind with our producers and differentiate ourselves.

On the larger Surety risk, it remains very competitive. Although results have been good for the industry so far, we have seen a lot of undisciplined players.

New business is very difficult. Prices continue to go lower with credit terms that seem careless. Our Surety team has weathered this storm before, and they continue to build on their deep relationships in their respective niches to find opportunities to grow profitably.

Overall, we had a very solid quarter, and I am very proud of our underwriters, claims professionals and associates who continue to perform like the owners they are, by demanding excellence from themselves and each other.

Thank you. I'll turn it back to Aaron who will open up for questions, I believe.

Aaron H. Jacoby
Vice President of Corporate Development
Yes. Operator, we can now open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Randy Binner.

Randolph Binner
FBR Capital Markets & Co., Research Division

I just want to ask a couple, actually on Property. It seemed like the underlying loss ratio is actually pretty good there. So X-ing out the CAT impact, was there anything unusual from an underlying loss perspective in the quarter that helped that good result?

Craig William Kliethermes
President and Chief Operating Officer

I mean, this is -- Randy, this is Craig. I would say, we've been working on Marine for a while, and those results have been getting better. Obviously our CAT business continues to perform. We haven't had the big CAT losses, I know some others have had. And we've been working on -- I think we've talked about our RV business in the past. Hopefully, the results seem to be getting better there. So I don't know, other than maybe mix and some small improvements in spaces where we needed some help. That's all -- that's really the only thing I could help explain.

Randolph Binner
FBR Capital Markets & Co., Research Division

That's helpful. And then on, I think, in the last call or the last couple of calls, the commentary around Property rates, relative to loss costs trends are pretty negative, and then obviously, you're continuing to shrink the topline there. Is that still a good generalization? I mean, I know you have niche businesses in Marine and RV as you just mentioned. But are Property rates in general, kind of moving below loss cost in the market? And should we kind of expect you to continue to pull back to this degree?

Craig William Kliethermes
President and Chief Operating Officer

Randy, again, Craig. From a -- I mean, obviously, it's a very diverse Property portfolio. Certainly, that is probably true from a CAT perspective. I don't think we believe the underlying loss costs are getting better. And then -- but the rates are certainly going down. So certainly, there's some deterioration, but it's hard to observe a lot of deterioration if you don't have big losses, right? Because the loss ratio's 0 if you don't have any losses. But certainly the mix, that underlying mix is changing. For RVs, I think they're experiencing the same underlying auto trends, because that's mostly the physical damage coverage, but they also are exposed to those underlying auto trends which I think you've seen in the rest of the market, and I think we felt it a little bit in that space as well. Marine continues to get rates, we think, equivalent to loss cost. So they are getting some small rate increases. In our Hawaii Homeowners business, is an admitted product. So we haven't seen -- again, that's mostly a CAT business, but it's been -- seen a lot of CATs in Hawaii, recently.

Randolph Binner
FBR Capital Markets & Co., Research Division

RV, you mean -- so the frequency -- you're observing frequency trend that -- Hey, I mean, it's summer, so we know folks are driving the RVs more, or is -- but do you mean they kind of distracted driving and higher accident frequency, outside a normal seasonality, you're observing that in the RV...

Craig William Kliethermes
President and Chief Operating Officer

Well, it's certainly -- it kind of stepped up a couple of years ago and I think it remains at that level. I don't see it continuing it at that same growth rate necessarily, or continuing to accelerate the trend, but the trend's certainly jumped up a little bit several years ago. And we have yet to see it subside. But we are getting very sizable rate increases in that space. That's also an admitted space, so we have to file and get approvals. But we have filed fairly significant rate increases over the last couple of years, and that book has shrunk fairly significantly, the double-digit rates over the last couple of years because of that.

Randolph Binner
FBR Capital Markets & Co., Research Division

Got it. And I'm just going to add -- ask one, and then I'll drop back in. So, with this Rockbridge deal, I guess, with the benefit of hindsight now and the suggestment on the goodwill, what do you -- what changed the most since from when you did the deal in 2012? Yes, I guess, what was the trend in that business or the issue that's caused some adverse development?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Randy, it's Tom Brown. I think you used a good word, now in hindsight, because that's basically kind of the look you have to take on this. When we bought it, back in, I would say late 2012, the rates were pretty sound. They were producing north of 16 -- almost -- somewhere between $16 million and $20 million in premium on an annual basis prior to that. And I think unfortunately, subsequent to that time, we've seen a kind of a year-over-year decline in rates. And I think, true to the core ROI underwriting discipline, we shrunk that book. And that's -- again, it's because you have to go back to the reason we were attracted to them in the first place is they had ROI at like underwriting discipline. And that has shrunk, it's down to about, just north of $10 million today. And I think, as you read our prior SEC filings, 10-Qs, 10-Ks, we've been signaling that the topline has been declining. Well, what happened in this quarter is, you had a few adverse developments or claims that had come in the door. And you couple that, with the client ratio went up a bit, several percentage points, and when you go to the accounting convention, that triggers an impairment that you go through and fair value as a consequence was below the carry value of the goodwill. I hope that addressed your question?

Randolph Binner
FBR Capital Markets & Co., Research Division

What was the nature of the higher -- the elevated claims?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

It's a small book. So probably somewhere in the neighborhood of about 200 policies. So you get a couple -- you have 2 particular policies that had some kind of rather large losses. And when you have such a low base of premium, that can be a very significant impact to the combined -- or the loss ratio piece of the combined ratio. And unfortunately, you have to kind of use your kind of contemporary -- contemporaneous assumptions in looking forward into perpetuity, into the accounting model, is your determination of the fair value. Well, I think as we all know, this is an industry that works in cycles, and we do have confidence that it will recover in time. And that's why we remain confident in, like the business. But the accounting model doesn't allow you to anticipate that.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay. Understood. I mean, I guess the good news there, to the extent you shrunk the book, that may have cut off the tail of even greater losses. Is that the positive way of looking at it?

Jonathan E. Michael
Chairman and Chief Executive Officer

Randy, I think Tom mentioned it, but -- I mean, that is kind of our modus operandi is, if the market is not going to bear the rate we need, we tend to shrink. And we certainly shrunk this book, and we were hoping that the loss ratio would maintain the same level. It's elevated a little bit. The combination of that elevated loss ratio and the reduced premium, unfortunately in the accounting world, says it's worth less money or less -- worth less money on our books, anyway. So we still have a lot of confidence that our underwriter's going to address the underlying deterioration and -- I mean, we're hoping that market starts to stabilize, but as of right now, I think I mentioned that earlier, that's one of the areas where the rates are still declining the most. So it's a challenge. And I think, we're competing with companies,who've been in it for a while, and I have a pretty big reserve margin built-up, and you may not be seeing what the current accident year loss ratio is, or certainly maybe that message is not getting to their underwriters. So still producing good calendar year results for the most of the industry.

Operator

And our next question comes from Arash Soleimani.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

I'm just curious also on the med-mal front, does Berkshire getting bigger in med mals through medical liability mutual insurance, does that, you think, impact you guys competitively in any way?

Craig William Kliethermes
President and Chief Operating Officer

This is Craig again, Arash. Well, I think, that company is an admitted company. We compete in the E&S space, which is really more with the evinced and desics [ph] of the world. So we probably won't go head-to-head, I say that in most cases. However, we have seen the admitted folks reaching out into the E&S space and starting to write doctors and physician groups that wouldn't normally be within their strike zone. Which would be less for the E&S market, so unfortunately, I can't say for sure, but we don't typically compete with them head-to-head.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's fair. And, on kind of just what you were saying before on that front, you still expect rates to be pretty soft for the foreseeable future in that line. Just basically the reason being that -- a lot of the peers that you're competing against have large positive reserves that they can kind of use to buffer their way -- with, through -- with lower rates, is that kind of the takeaway?

Craig William Kliethermes
President and Chief Operating Officer

Well, if you -- I mean, I assume you look at industry studies like I have, but the industry studies would say the Medical Malpractice line is the most over reserved line remaining. So they would probably have some area to compete, some room to compete. In the short term.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's fair. And then, you had mentioned getting some products to scale. Should we expect that to start to benefit the expense ratio going forward?

Craig William Kliethermes
President and Chief Operating Officer

Well, certainly, we've invested in some cases, it's been teams of people, in some cases, it's been taking existing underwriters and focus on new things. So obviously, as they scale up and gain some margin -- or some revenue, it's obviously going to help. The denominator of that equation gets larger, and we hope that a lot of those expenses are somewhat fixed. There's some variable ones obviously, in commission and tax. But yes, so that should hopefully help that. And help the top line, which should help the expense ratio.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's fair. And then lastly, I know you probably can't give too much color on this, but in terms of the prior period development, should we expect that going forward, it's a kind of, be more in line with what we've seen, sort of year-to-date? Or is that not the right way to think about it?

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes, Arash, Jon Michael here. Yes, we can't forecast any kind of reserve development into the future, either way. It is what it is. So I think you know that.

Operator

And our next question will come from Jeff Schmitt.

Jeff Schmitt

On the investing side, other comprehensive income was pretty sizable at $19 million. What drove that?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, but it's, it's Tom Brown. Touched on it a little bit in my comments, but with some of the interest rate declines the -- again, on the accounting model, mark-to-market indications on the fixed income portfolio, those would increase, rather significantly, up -- let's see if I have it here, about -- year-to-date, about $47 million, not sure I have it broken down by the quarter. Likewise, the equities had a good run as well, and so that also finds its way into the comprehensive income on the unrealized basis, was set by whatever we would have harvested on the realized side, so -- It had a very favorable impact for the quarter and a half.

Jeff Schmitt

What percentage of the bonds are available for sale versus held to maturity?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

It's 100%.

Jeff Schmitt

But they were still mark-to-market -- it's -- none of it's held to maturity?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

We -- several years ago, I think, we sold the last bond that was in the held of Surety. The bond that I -- I think it would actually mature, so yes, it's 100% in the held for sale category today, all mark-to-market.

Jeff Schmitt

Okay. And then on the E&S side, I know you had mentioned on the last call, you had seen some of the admitted carriers start to package in CAT risk with the liability risk. Is that something you're seeing tick up at all? Or is that kind of more one-off?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

I mean -- we continuously see -- I mean our -- we would say our least responsible competition would be admitted in markets that would come in and compete in the E&S space. And most of that, we call it irresponsible, because they're competing on price but their coverages are much broader than the coverages that we sell, typically to those insured. So by definition, you would -- the expectation is, they're going to have much higher loss costs than we would have at the same price. And we continue to see that. Obviously, I don't see that as much in a hard market, because those guys retrench because they get burned, but right now, we still see them.

Operator

[Operator Instructions] Our next question will come from Mark Dwelle.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just one follow-up question related to the medical liability write-off. I was curious why that was in realized capital gains. I've seen that recorded before through operating, and I know there is some feature of this that moved it up to that part of the P&L.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, Mark, it's Tom Brown. Yes, I think what you'll find is a fair amount of diversity in practice. Our view is based on the relatively small amount built into our balance sheet income statement. That's there, and that's why we did spike it out in some of the disclosures.

Operator

And our next question will come from Ken Billingsley.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

Mark asked one of my questions. The other one is, on the investment yield that's -- it's dropped over the last few quarters. And I'm calculating this, taking the investment income over an average cash and fixed investments. But it dropped another 17 basis points this quarter, can you just talk about, maybe, was it from an investing strategy? If we should expect that this is the new norm? Or are we going to see another 10 or 15 basis point bleed through the end of this year? Just kind of what expectations we should build in.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, Ken, it's Tom Brown. It did drop, basically, as bonds have rolled off, with a little higher yields, and reinvested, at the current market yield, it's -- that has had the, that downward impact and pressure on the overall yield. We feel pretty good in the average -- the purchase yield, and the average for the quarter is about 2.8%. To the extent I guess, I mean I can't -- it's a little bit difficult to predict in the future, we are going to have again, more turnover in the second half, but we're in a pretty stagnant, low interest rate environment that's going to have that effect to -- the foreseeable future, when we see some uptick. Nothing's really changed too much, and we've been sticking pretty close to about a 5-year duration for now several quarters, couple of years, anyway. One thing I just -- I should have said, to we -- last half of last year, and early this year, we did move into a little higher quality, life quality, life safety, treasuries and then more recently, mass effect, NBS.

Kenneth G. Billingsley
Compass Point Research & Trading, LLC, Research Division

Okay. So there was a change in some of the asset purchases in the last half of 2015?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, and into the first half of '16.

Operator

Our next question will come from Ron Bobman.

Ronald David Bobman
Capital Returns Management, LLC

I had a question about Commercial Auto. You made some comments I think, in the prepared remarks, about the sort of competitive behavior. And I was wondering if that's just really a continuation of -- I don't know, the last 12 to 36 months, where you saw sort of some of degree of a change in competitive behavior in the most recent quarter as compared to prior quarters?

Craig William Kliethermes
President and Chief Operating Officer

Ron, this is Craig. I would say a continuation of what we've been seeing over the last 24 to 36 months, I think. I don't think they found -- we -- the things like the market hasn't found the right price yet. So you're still getting higher rates in general. As I mentioned before, we haven't quite seen the same poor underwriting results that the rest industry has in that space. So we certainly are enjoying the opportunity to get a little -- to be able to look a business we couldn't look at before, because it was underpriced, we felt. And obviously get some price where we can afford it.

Ronald David Bobman
Capital Returns Management, LLC

Got you. And so -- I mean -- I guess this is sort of the obvious, but in some respects, your sort of win to loss ratio, whether it's binding, to quote, is it's at a higher level than it was in prior years, but hasn't really moved that much further up in the second quarter than it was in more recent quarters. Is that...

Thomas L. Brown
Chief Financial Officer and Senior Vice President

I wouldn't if they say -- I know it's not to say we're binding at a higher rate, but we certainly are seeing more submissions. So it might be slightly higher, but I wouldn't -- it's not enough to talk much about it. But it's really an increase in submissions. And I can tell you -- okay.

Ronald David Bobman
Capital Returns Management, LLC

No, good, I'll take any words of wisdom you're willing to offer.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

As I was saying, producers are looking for appointments everywhere for new markets that are interested in entertaining commercial auto, because it's that tight.

Operator

And our next question will come from Ian Gutterman.

Ian Gutterman
Balyasny Asset Management L.P.

First I just want to clarify, I got a little confused around the medical. The -- forgetting the goodwill, it's just the underlying results, are they in the Casualty segment, the premium combined ratio and so forth?

Craig William Kliethermes
President and Chief Operating Officer

This is Craig, Ian. Yes, they are. That's an E&S casualty product, so -- but it does fall through the Casualty results, yes. It's a very small portion of our overall Casualty results, just so you know, I mean $10 million pretty small, relatively.

Ian Gutterman
Balyasny Asset Management L.P.

Fair. I just want to make sure, so any underlying deteriorations, basically all of your reflective, is what I was trying to get at? Is that something we have to worry incrementally?

Craig William Kliethermes
President and Chief Operating Officer

Correct. As far as it is helping.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. Got it. And then I just had a couple of other things on Casualty in general. Usually, this Q2 seems to be historically your big reserve release quarter, and about half of what it was last year in the Casualty segment. Anything sort of different from prior year's reserve studies that -- that look to that?

Craig William Kliethermes
President and Chief Operating Officer

This is Craig. I mean, I can answer, Tom might want to jump in here. But I, I mean I know our processes have remained the same for as long as I've been here for over a decade, and I know it's the same as what it's been prior. So I can't tell you that there's anything that's changed certainly in our underlying process and we haven't seen any significant underlying trends that would be driving it. So I can't explain it, but it is down a little bit from last year. Although last year was a little higher than normal, I think.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I didn't mean to suggest process change, but anything as far as recent accident years, first auto [ph] accident years, or maybe certain lines of business that have been shown more releases that, that didn't this year. Any kind of color along those lines.

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes, this is Jon. Last year was more of an outlier though. The second quarter of last year is a bit more of an outlier than -- this was not really that different than other second quarters -- in second quarters.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, got it. And then the underlying acts that your margin improved this quarter and last quarter, nicely. Does the fact that casualty rates are starting to flatten out, make it harder to continue to improve that? Or is there still because they're sort of written from the last year, baked in, you have to earn it, maybe saw a little bit to go?

Jonathan E. Michael
Chairman and Chief Executive Officer

I'm sorry, you are asking about our underlying loss ratio in Casualty and Surety? [ph]

Ian Gutterman
Balyasny Asset Management L.P.

Right, x the development. X the development.

Jonathan E. Michael
Chairman and Chief Executive Officer

All I can say about our -- I mean, the challenge is, with that, is our mix is constantly changing within Casualty. Obviously, we're growing things that we think the margins are still good, and we're shrinking the things where the margins are getting tighter. So it's very hard to project because almost everything involves a mix -- underlying mix change, so when you look at the combined ratio, even though -- or the underlying combined ratio, even though overall price change might be flat, what you're seeing is us growing some of the products where we're still able to get rate and still find accounts that are attractive, and we're shrinking areas where we happen to give up rate, and also where we find less attractive from a margin standpoint. So that's how, I'd say more than anything, we've been able to stabilize the margin for the underlying combined ratio for all of our businesses in general.

Ian Gutterman
Balyasny Asset Management L.P.

That make sense. And then maybe just one last topic. On your paid losses. The past couple of quarters have been up double-digit, which is kind of unusual for you guys, and is meaningly fashioned in a premium growth. Anything onetime in there? Or...

Thomas L. Brown
Chief Financial Officer and Senior Vice President

No, it's Tom Brown. I think, we're pretty -- at least if you look at the first or the second quarter compared to the second quarter last year, it's pretty close. It might be up about $3 million this year versus last year, but I don't think you agree into a $3 million movement is anything significant. I mean, the topline is higher -- is large as well, albeit this will be typical claims from prior years.

Jonathan E. Michael
Chairman and Chief Executive Officer

I mean the only thing I would add is that, from our -- on the Casualty and the Surety side, which are growing, the Surety side's obviously a little shorter tail, so you're going to get the right more of it, if you look at it in aggregate, you're going to have more paid losses earlier and also on the Casualty side, the products that we've actually been growing are relatively middle to shorter tail Casualty products. Transportation we would view as a shorter tail product, Package business that we've been growing a shorter tail product. So the umbrella products -- yes, okay.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And no, I might have again -- I try to back into the numbers, so I might have calculated it as wrong as well. So I could follow-up with Aaron maybe on that, so.

Operator

If there are no further questions, I will now turn the conference back to Mr. Jonathan Michael.

Jonathan E. Michael
Chairman and Chief Executive Officer

Thank you, very much. Another good quarter, mid-80s combined. We'll take that all day long. Casualty and Surety showed strong growth during the quarter. Property continues to be a difficult marketplace, but our underwriters remain disciplined, and they will remain disciplined and be very selective for that business. Thanks again for joining us, and we'll talk to you again next quarter.

Operator
Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 with an ID of 736-0428. This concludes our conference for today. Thank you for your participation, and have a nice day. All parties may now disconnect.