Old Republic International Corporation NYSE:ORI

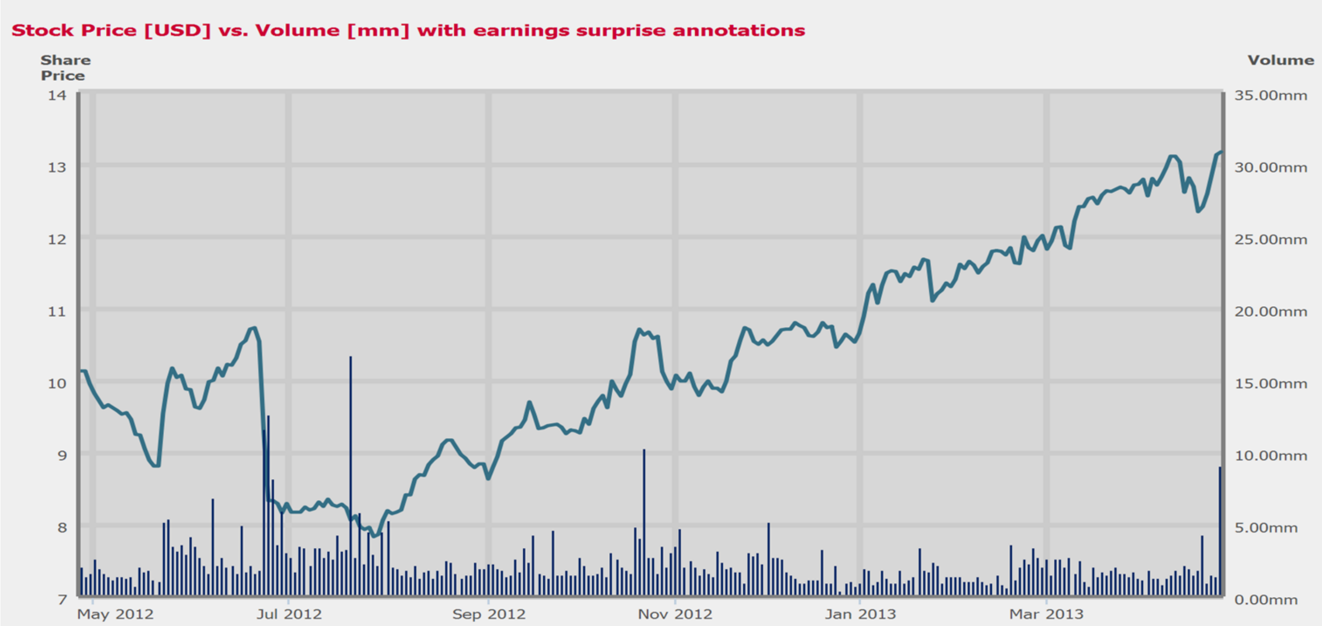
FQ2 2013 Earnings Call Transcripts

Thursday, July 25, 2013 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.02	0.37	▲1750.00	0.03	0.30	1.00
Revenue (mm)	1307.00	1461.50	▲11.82	1379.00	5331.00	5331.00

Currency: USD
Consensus as of Apr-26-2013 9:04 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	0.03	(0.19)	NM
FQ3 2012	(0.03)	(0.11)	NM
FQ4 2012	(0.05)	(0.09)	NM
FQ1 2013	(0.04)	0.20	NM

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Richard Scott Rager
Executive Vice Chairman

Scott Eckstein
Director of Account Services

ANALYSTS

Jim Ryan
Morningstar Inc., Research Division

Ronald David Bobman
Capital Returns Management, LLC

Stephen Mead
Anchor Capital Advisors, LLC

Unknown Analyst

Presentation

Operator

Good day everyone and welcome to the Old Republic International Second Quarter 2013 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions]

I would like to remind everyone that this conference is being recorded. I would now like to turn the conference over to Mr. Scott Eckstein with MWW Group. Please go ahead, sir.

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 second quarter 2013 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 July 25, 2013. Risks associated with these statements can be found in the Company's latest SEC filings.

Participating in today's call, we have Al Zucaro, Chairman and Chief Executive Officer; Scott Rager, President of Old Republic and Mark Bilbrey, President of the Title Insurance Group.

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

Aldo Charles Zucaro
Chairman & CEO

Thank you, Scott. And good afternoon to all. As Scott just said, we have somewhat different cast of characters than we have had of late, specifically Rande Yeager who has been handling the Title Insurance discussion is away on a well deserved vacation and doing the duties on his behalf will be Mark Bilbrey who is President of our Title Insurance business. By the same token, Karl Mueller who is our CFO add to absent himself from the office and he usually discusses more of the financial matters relative to our company and I will cover for him this time around in his absence.

So, I'll start the ball rolling by saying that this year's second quarter also represents the second consecutive quarter of profitability since the onset of the so-called great recession in mid 2007. As the old cliché has it, we are finally seeing, we believe, a light at the end of the tunnel and we are sure that it's not an oncoming train that speeding toward another wreck.

Each of our segments, including the run-off book of business pulled together this past quarter as well as in the first half to achieve very good results for us. And of course, as you saw in the release as we added some icing so to speak to the cake by taking advantage of a good coincidence of stock market pricing on some securities as well as a tax planning opportunity are to book substantial realized investment gains in this year's second quarter.

So, addressing first of all the run-off book of business which, as you know, as you see is composed of both the mortgage guarantee and the similar consumer credit indemnity coverages, the story for the second quarter and as well as the year to date periods of 2013 is clearly stated we think in this morning's news release. I might say that since last year's fourth quarter, we have been experiencing a very steady decline in loss provisions applicable to previously reported default that had been in reserve as of the preceding yearend. And as we point out in the release, the significantly lower claim provisions we posted are affected mostly by the rate at which those previously reported defaults are curing themselves or are being closed out and thus eliminated from the inventory of open claims without a payment being made.

Anyone staying up to date on publically available housing and the related mortgage lending as well as the general employment trends in this country is well aware that all of these factors are moving in a favorable direction. So, it stands to reason that we should be experiencing this type of turnaround in claim costs, still we need to also note that we are still maintaining a relatively higher average claim reserve per loan and default that our overall claim reserve today are still a bit higher as a matter of fact than they were a year ago, that risk in force is down almost 19% year-over-year and that the traditional primary default rate is down about 7% from where it was again a year ago. So we say all of this because we think it sheds some additional light on the trend and claim costs so far this year in the mortgage guarantee business.

And finally, we also should take note of the fact that our better claim performance is not unique to us, several of our MI competitors and the 2 GSEs in particular are also posting better results and have been doing so since last year end as I recall and these better results seem to be based on the lower pressures from the claim side of the respective businesses, or so it seems from our vantage point.

I might also note that in addition to the claim cost downtrend we are experiencing in mortgage guarantee that it's worth seeing that we are operating the run-off at a very low expense ratio even when you consider that we are experiencing a continued drop in the earned premium base for that business. And all the credit for managing the MI run-off so economically goes to what we are blessed with which is a very fine group of professionals who remain fully equipped to manage both a run-off as well as active business in a most efficient and professional manner.

Having said that, the $64 question at this juncture of course is whether these very favorable trends in mortgage guarantee claim cost can be expected to continue in the near term and we really don’t have a clear cut answer to this. But we can say that I think fairly safely that it is more likely than not that they would do so to some relative degree, relative to the immediate past as reported let’s say in 2012.

With respect to the CCI portion of the business which is also in run-off. The operating statistics we reported in this morning’s release, on Page 5, it shows similar substantial reduction of year-over-year claim costs as well as a very low expense ratio. This is of course a much smaller book of run-off business but it is basically affected positively by the same very good positively pointing housing and general economy factors that we’ve just mentioned relative to mortgage guarantee.

So all in all this run-off book of business is producing much more beneficial results than we would have thought would be the case earlier this year when we put the final touches to our operating budget for the year. So having addressed this run-off book, I think I will turn it over to Scott Rager for some of his additional comments on our general insurance segment.

Richard Scott Rager
Executive Vice Chairman

Thanks, Al. The general insurance group net premiums earned excluding the CCI business grew by 9.1% or just over $1 million. That’s just above the average earned premium growth we’ve experienced in the past 18 months. This growth occurred principally in workers compensation and commercial auto product lines. And as our release stated aviation, construction, energy, home warranty, trucking, and large account risk management specialty units were all up. Numbers in most operations are reflecting moderate rate increases and some continued organic growth due a degree of economic impetus.

Customer retention rates are trending upward most operations and continue within our long terms expectations. We are still seeing new opportunities and several underwriting units as various competitors either rebalanced their books by coverage or perhaps implemental sales strategies to increased rate levels across an entire book of product line. In these situations Old Republic specialization really serves us well as to risk selection and individual account underwriting.

Our general insurance claim ratio year-to-date ticked upward again excluding the CCI book and run-off to 73.1% versus the 71.1% for the second quarter of 2012. We think that medical inflation and workers compensation is the primary driver and general liability claims to a lesser degree. We continue to manage our expense line, well unless we have historically, the decrease in the expense ratio offsets the loss ratio increase resulting in a composite ratio of 97.4% through this year's second quarter and that's down from 97.8%, 2Q 2012

By and large we are pleased with our position in general insurance and we have good opportunities for growth at reasonable rate levels and that our underwriting culture should continue to serve us well as the year progresses.

Now I will turn the phone over to Mark Bilbrey for comments on our extremely well-performing Title segment; Mark?

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Thank you very much, Scott. It's good to report that the Title Group recorded its best ever second quarter in its history with a pretax profit of $40.4 million. That compares to $22.5 million in last year second quarter. Our premiums and fees were up nearly 28%. We had significant gains throughout the country in both agency and direct revenue. For the past 18 months, we have been averaging a gain of almost 25% per quarter. This increase was driven by an improving housing market combined with continued market share gains.

Our national market share for this year's first quarter which is the most recent period available was about 15% compared to 13.5 for all of 2012. 2013 should mark our seventh consecutive year of market share growth. Our expense ratio has been on a downward trend also since 2008 and that trend continues this quarter. The ratio declined to 86.2% from 88.3% in last year's second quarter. The claim ratio also continues favorable down trend coming in at 6.8% compared to 7.3 % for the same quarter last year.

As we are continuing to grow, we are remaining very focused on manageable cost and risk. With a recent uptake in the interest rates we are seeing some slowing in the refinance activity. However, these gains in purchase transactions are more than making up the difference. We remain very optimistic about our business and as long as interest rates remain relatively low and economic activity continues to show progress the housing sector should continue to improve.

I'd now like to hand the phone back to Al Zucaro to address various ORI consolidated information and for additional comments and wrap up.

Aldo Charles Zucaro
Chairman & CEO

Very good, Mark. So I'll take a few minutes first of all to address some key elements of our current financial situation that's an area that Karl Mueller would otherwise cover if he was here today.

In this morning's release, as you saw, we reported total assets of about $16.3 billion and that number is largely unchanged from year end 2012 and is down modestly from the first quarter of this year. The investment portfolio grew slightly, I might say during this latest quarter. And the growth resulted from the addition of the positive operating cash flow that we reported in the release. But to some degree obviously this was offset to by declines in the fair value of our fixed income portfolio due to the rising interest rate environment that was experienced in the second quarter. And as you know, bond prices work in the opposite order as rates go up or down.

As the release shows we produced higher than normal realized investment gains during the quarter as I indicated before. And the total net sales proceeds from those sales was about $157 million during the quarter. And we reinvested those proceeds in equity and fixed income securities that would produce about 4.5% yield based on cost. So that should ultimately add a little bit more money to the investment income portion of the operating statement. As a result of doing that, the composition of the portfolio therefore remains pretty much consistent with prior year periods.

On the liability side of the balance sheet, the overall claim reserves decreased slightly during the quarter. And consistent with last quarter, we believe that this is reflective of both business growth in our general and title insurance operations and offset somewhat by declines in the RFIG run-off business by virtue of the factors that I mentioned before which is the payment of claims on the one hand as well as the elimination of certain claim reserves due to their being closed without payment.

During this year's second quarter and first half, the year end reserve of 2012 developed favorably on an overall consolidated basis. Just as was the case in prior periods, our general insurance reserves have trended favorably by a percentage point or 2, which is about average for us. We typically average 1% to 3% on a quarterly or even or more importantly on an annual basis of one year developments. So that favorable trend in developments has continued.

And the title insurance reserves have so far this year been spot on with the original estimate. So other than the reserve releases as we mentioned before relative to our mortgage guarantee business, we're looking at same old and so far reserve developments in general and title insurance.

As we've already noted this afternoon and as well as in the press release, the prior year's RFIG run-off segment, as I say, has developed favorably and is in fact producing or enhancing significantly the bottom line that we are posting for the first 2 quarters of this year. And again this is largely the result of the factors that we've enumerated in the news release.

Elsewhere from a balance sheet standpoint, we ended the second quarter with a debt-to-equity ratio of let's say almost 16% and a debt to total capitalization of about 13.7% almost 14. And both of these relationships or ratios are substantially unchanged since year-end 2012. So we have got some fire power, if we need to increase the amount of debt on the balance sheet, not that we have any immediate plans to do that.

This morning we reported that Old Republic from a consolidated standpoint ended the quarter with shareholders equity of almost $3.6 billion and that translates to 1,395 per share. As again you see in the news release. And that's down from $14.31 that we reported at the end of March. The operating earnings per share are in excess of the quarterly dividend and therefore they added $0.23 and $0.25 to book value for the quarter as well as the first half of this year.

Of course this was more than offset by the effect of the investment activity for the quarter and year-to-date periods as some previously reported unrealized gains were in fact converted into realized gains that I mentioned before. As well as the offset being caused by the fair value of the fixed income portfolio securities declining due again to the rising interest rate environment we have already mentioned.

From a parent company standalone liquidity standpoint, we ended June with approximately $265 million of cash and highly liquid money market type of securities held both at the holding company as well as in non-regulated agency service type of subsidiaries as opposed to insurance company subsidiaries. The dividend paying capacity from the regulated subsidiaries as well as other sources of cash flows to the holding company is substantially unchanged from the level at year-end 2012.

And as a result we do continue to believe that the sources of cash to the holding company are both sufficient as well as sustainable to meet our holding company obligations for the foreseeable future including dividends to shareholders as well as the interest on the debt securities that are lodged on the right side of the balance sheet.

So before we open this up to questions and answers let me wrap up by saying this about what happened so far this year in our business and what we see happening in the near-term. As we said in the last few moments each of our 3 segments is performing as well, if not better than we anticipated at the beginning of the year. With respect to the MI and CCI run-off books our feeling is that we should be able to take a couple of steps forward and maybe a step back for a while longer until the housing sector gains even greater stability and as well as employment levels improving further ever so slowly as they have been doing for the past couple of years or so.

The title business should hum along very nicely given its very fine and still improving market share and cost of operations positions, as Mark Bilbrey mentioned before. And as you know, as we've reported over the last several years, our Title management team made huge investments in people and infrastructure resources in the depth of the great recession. And to the end that together with our good name and our good reputation in the business, this is now paying off and I think it augurs very well for the future.

As we indicated in the release and again Scott Rager noted, our largest segment of general insurance has been experiencing some claim cost pressures in parts of the worker's compensation insurance line in particular, we have been dealing with this for the past couple of years or so as those of you who follow us know. And we may well be nicked here and there for a bit longer, before the combination of both ongoing rate increases and continuing refinements in our underwriting focus take hold in various parts of the system, but nonetheless our overall general insurance line is expected to reflect increasingly positive momentum as the next several quarters are lopped off the calendar. And as we've noted beforehand our overall financial condition at ORI is very stable. And it is more than sufficiently strong to enable us to grow our active business very successfully for the long run.

So there you have it, insofar as our commentaries are concerned so as was indicated before again we'll proceed with the questions and answer period as appropriate if you'll address your questions to me I'll direct them to Scott or Mark or myself as the case may be.

Question and Answer

Operator

[Operator Instructions] And for our first question we go to Jim Ryan with Morningstar.

Jim Ryan
Morningstar Inc., Research Division

Question on general insurance, I'm trying to get a handle on how much workers' comp may be affecting the composite ratio for general insurance. So my question is, without workers' compensation what would be the loss ratio for general insurance and even maybe if you want to tell me what the loss ratio is for workers' comp maybe that would help.

Aldo Charles Zucaro
Chairman & CEO

I don't have the answer directly to that question, first of all let me say this. As to the first part of your question I would guess and I think it’s a pretty good guess you can bank on it that this may be 45% of our comp business which is written in a traditional risk transfer basis, that's been creating some loss reserve issues for us. As to the second part of your question if you have access Jim to the statistical or the financial supplement that's posted on our website, you'll see, I think it's on Page 4 that we show the loss ratios for each of our main coverages including workers' comp and I think you can easily calculate what that, what the answer to your question would be, as I say I don't have it here but the comp ratio for 2010 by itself was 70.7% for 2011 it was 72.3% and year to date in 2013 it's 77.1%, so it’s been inching up steadily. When you look at the other loss ratios whether they are in commercial automobile or general liability, they've been inching up but not to the same degree as workers' comp. but as I say I think we can easily make the calculations Jim, I wish I had I had them in front of me and I don't have a calculator to do it but I know you can do it.

Jim Ryan
Morningstar Inc., Research Division

Secondly, today it was reported by Lender Processing that after 5 months of improvement, mortgage delinquencies rose dramatically in June, which would seem to time out with the increase in interest rates and I'm wondering what your thoughts are in terms of the mortgage insurance, what happens if rates were to continue to rise. I mean does that automatically then mean more claims in the mortgage insurance business, can you give me some thoughts on that.

Aldo Charles Zucaro
Chairman & CEO

Yes, well, common sense will tell you that if the factors that enter into the stability of mortgage payments is askew, that you're going to have an adverse impact on claim costs. I think in our case, you still have those government programs in place, HAMP and HARP and those are very helpful to keeping the lid on claim costs. In our case also would be expected to runoff book of business, we have a declining amount of in force business, our reserve structure on the proclaimed basis as I said before is very strong.

So, we going to have a quid pro quo, my guess tells me no. But as same talk when we’ve had several occasions in the last 3 years in particular of defaults going back and forth, people going to default then they cure it, they start making 2 or 3 payments, then they go back in default and a lot of it is of course driven by employment in particular and therefore people’s income and their ability make timely payments on a pretty consistent basis.

The long and the short of it, yes it could have an impact on us and the rest of the industry. How much, who the heck knows. But I don’t think by any stretch of the imagination Jim that we’re going to go back to the kind of situation claim cost wise that we were looking at let’s say at the beginning of 2012 or in 2011. I don’t think that’s on the cards.

Jim Ryan
Morningstar Inc., Research Division

One final question I have been noticing the increase in the market share and the title insurance business is there any certain geographic area or certain programs or anything that is allowing us to happen? It is rising very dramatically.

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Jim, I think our growth has really been across entire footprint, we have, it’s kind of reward for what we think we’ve been doing right for some time. We really want, we’re chasing, if there is a chase involved its really trying to hit the bottom line.

I think we continue focusing on providing the right services in the right way of doing business, the bottom line will take care of itself in that and market share will come along but I do think there is still areas of growth in that for us.

Operator

[Operator Instructions] We go next to the Steve Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

There are a couple of questions. As you look at the gains that you talk in the quarter what part of the investment and count was most affected by that? Where were you taking your gains?

Aldo Charles Zucaro
Chairman & CEO

You mean which subsidiary or.

Stephen Mead
Anchor Capital Advisors, LLC

No, no. Just in terms of whether it was bonds or equities.

Aldo Charles Zucaro
Chairman & CEO

Yes. I was all equities; we had a number of equities which I had done very well for us from the market value standpoint and others not so well. So, as we indicated in the news release some of the equities, we had cut back in terms of their values, book, values on the books by taking impairment charges as early as 2008 and all of these equity securities that we sold were non-dividend paying securities and that’s why I’ve said before by reinvesting the proceeds of about 157 million as I recall.

In the combination of equities and bonds both of which are yielding on something we should be improving the investment income going forward. But it was all equity securities that we sold.

Stephen Mead
Anchor Capital Advisors, LLC

How much of MGI CV you own at this point?

Aldo Charles Zucaro
Chairman & CEO

Well, as you know, we have to adhere to SEC rules as to our percentage ownership in any one security where we exceed 5%. So, the answer to that will come for us as we file those reports as necessary.

Stephen Mead
Anchor Capital Advisors, LLC

In the Title business, can you just talk about the mix of business between sort of refis and purchases and kind of what you were seeing with the increase in the interest rate as the quarter came to a close? And then looking at sort of the volume expectation in terms of the Title business going forward is, if you can provide a little bit of guidance as far as the second half of the year as it relates to refis and purchases and then looking at sort of the margin or the expense ratio as the mix changes, is there an impact on the margin in your business in the title business?

Aldo Charles Zucaro
Chairman & CEO

Well, that's a loaded question and I'm happy to turn it over to Mark Bilbrey.

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Thank you, Al. There is no question. The increase is in the rights of impacted the refinances right away we're seeing that activity start slow down. But we're also seeing on the purchase side remain strong and in lot area still growing and the rate, even though it's ticked up about a percent in the last month or so, it's still a very good rate as long it stays, what I'd call realistic rate along fairly low rate and I think we'll do fine. Probably the inventory would be a bigger concern for me as available housing, but I think that will come along.

From the refinance how it impacts us, we're probably about 35% refinance driven, we're an agency driven business in most cases but that overall has dropped slightly but for every drop we had an increase in our purchase activity business.

Since we are agency driven, a lot of the ups and the down in the refi side did not impact us dollar for dollar that they made on it direct operation. And the direct operations we do, we're very conscious of the fluctuations in that and have been watching the cost very, very closely, feel very positive about that end of the market as we go forward to the end of the year.

Stephen Mead
Anchor Capital Advisors, LLC

As it relates to the margin question or expense ratio?

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Yes, as far as saying on our expense margins, I do not see that having a negative impact on us. We watch those very closely and from a staffing side and lot of refinance business has been coming to us through various channels agency markets and various item. I do not see that being a very negative effect for us at all.

Stephen Mead
Anchor Capital Advisors, LLC

I mean is the purchase mortgage more profitable for you?

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

There is no question; the purchase business is more profitable per order than the refinance business.

Stephen Mead
Anchor Capital Advisors, LLC

And then the other question I had Al for you. Just looking at some of the detail on the runoff business and the mortgage insurance business, the thing that struck me was as you look at the sort of vintage and the, what you still have in terms of insurance in force and the persistency of that business.

I was trying to get a sense of what in terms of the expectations, who are these borrowers and should persistency actually stay relatively high and should that business stay on the books a lot longer given the fact that people are living in a house with fairly higher loan to value ratios based up on vintage of that business or not. I mean what, on direction or right direction.

Aldo Charles Zucaro
Chairman & CEO

I think again if you look that this statistics particularly on Page 7 as I'm looking at them now of the supplement statistically exhibit, you'll see that the loans that were made in 2008, 2009, 2010 and 2011, truly now form the declining scale because both we and the rest of the mortgage guarantee industry where we had rest of the market share during those years. But whatever loans we did insure, were pristine, I mean everybody puckered up and are underwriting and lending and lending standards were high and I think they remain high interest rates on those loans were low to the extent that you had (HAMP and HARP) affecting those loans or loan issued in prior period, it should make the quality of those loans better.

So the answer to your question is that they should stay on the books longer. But the fact that they stayed on the book longer is not necessarily indicative that they are going to turn into defaults permanent or otherwise. Because again, defaults get cured as we are, as we experienced to a large degree in the first of this year.

And the factors that affect those cures relate to the to the employment situation, to what's happening to home prices, as home prices increase and they've been increasing in many parts of the country, including parts of my area here in Chicago; then it means that fewer and fewer people aren't doing order under water, and so far their mortgage loan is concerned and if there is a claim then the mortgage insurers more apt to get out of that situation by selling the place and getting close to value.

So, those are not necessarily negative factors, the thing to keep in mind is that things are moving in the right direction even though temporarily you may have hiccups and interest rates and this and that but things are getting better. We're not going to go as I said before, I think we are about to take 2 steps forward and maybe a step or half of step back but we're going to moving forward.

Stephen Mead
Anchor Capital Advisors, LLC

Okay. And then in terms of the delinquent loans and the progress on that would you view in at the end of the first quarter, you were talking about the first quarter, I think you've kind of mentioned the fact that on the seasonal bases you are on a favorable sort of seasonal position as it relates to delinquencies and sort of the trends in the business, things have turned out even better. I was just wondering in terms of seasonal kind of impact now as we go forward whether that seasonal impact has been totally overwhelmed or offset by the favorable trend in the business.

Aldo Charles Zucaro
Chairman & CEO

Well, you've got a good memory, we have been saying that for at least 3 years as I recall that for whatever reason and I know I don't think anybody has been able to put their arms around it in the industry but recently has not been able to put arms around it, is that the second half of the year tends to be somewhat worse than the first half of the year.

So it would stand 2 reasons that experience we've had in the first half may not necessarily and will not necessarily duplicate itself, however, I did also say in the earlier comments Steve that our reserve levels with respect to current default with current default has remained high okay we've not taken down reserves from that standpoint.

We've only taken down reserves where it's been absolutely no question that we would not have a claim, okay well that the claim went away because it got cured and so forth it was black and white okay. But where there is a question about whether claims that have been defaulted have been reported to us are going to go into foreclosure, whatever you, if anything, we have strengthen that.

I know we did in the first quarter and the second quarter we left it pretty much where it was. So if there is a down turn due any kind of seasonal aspects that we have experienced in the past and could experience again, I think to a large degree they should be mitigated because of the relatively strong reserved position that we have maintained on that book of business.

Stephen Mead
Anchor Capital Advisors, LLC

And one last thing I'll turn over somebody else. So when I look at reset across your portfolio we've got 74% or 73.5% resets in greater than 5 years which would suggest in terms of the current rise interest rates you have less sensitivity to that factor?

Aldo Charles Zucaro
Chairman & CEO

Yes, we do, we do. But again, I mean, we've been burned so often in terms of our making predictions that we kind of gun shy. I would only say this to you, repeat again what I've said before Steve and everybody else.

Listen, we're not going to go back to the dark days of 2010 and 2011 or even the beginning of 2012, it doesn't feel that way, okay, now we may go there in a step in a better climate in a stair step fashion yes, but we aren't going to go backward all the way, it just hard to feel, it doesn't feel that way from a judgmental standpoint, Steve.

Operator

And for our next question we go to Ron Basher [ph] with Pinnacle [ph].

Unknown Analyst

Quick question on the investment portfolio, I think you've said that most of the proceeds from the sale of the equities went into dividend paying stocks and bonds, what was the duration of the bond portfolio at the end of the quarter versus the end of the first quarter if you added?

Aldo Charles Zucaro
Chairman & CEO

I don't have that number so I'm just going to go from memory, I don't think it's changed very much in the last 3 or 4 years and it's around 4.2, 4.3 years.

Unknown Analyst

And you're comfortable with that level at this point?

Aldo Charles Zucaro
Chairman & CEO

Oh yes, I mean listen both from duration standpoint as well as average life standpoint of the portfolio, we could go further out if we wanted to and still be on safe grounds so long as we stick with quality securities that we can hold until maturity in the case of bonds and quality dividend paying stocks that have got a long history of dividend stability or better still in our case an improving dividend stream for many years, we've got good liquidity throughout the system. So that's not an issue with the durational average life of portfolio.

Operator

It appears that we have one question left in the queue. [Operator Instructions] And we'll take our next question from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had just 2 questions, one on the mortgage business and the other on the general insurance. On the mortgage business I was wondering in light of what's developed at PMI and the Arizona department's success in finding an interested party to purchase the platform.

I am wondering if there is any chance and I think you have answered this negatively in the past. But I know that's changed all, but is there any chance that the Republic mortgage platform has sort of a second wind, and begins to write new business either under the Old Republic umbrella or under someone else's?

Aldo Charles Zucaro
Chairman & CEO

Well, as you know, if you followed our company, we attempted to take the mortgage guarantee business as well as the CCI business public last year through spin-off to our shareholders, and that was the intent at that time to establish that platform.

That combined platform as a standalone company that could access the capital markets for reasons that we have clearly stated we backed off that proposition for a number of reasons having to do with the reasoning of stakeholders important to us. But that does not mean that we have taken that idea or any other idea relative to our mortgage guarantee and CCI business off the table.

So I guess the answer to your question is that we will answer it at this time in the same negative way as you recall we gave when you raised a question before.

Ronald David Bobman
Capital Returns Management, LLC

On that GI side of the firm, I had a question as far as, and there was some discussion about rates and the order of magnitude of the rate increases in some of the various sub-segments in the general insurance business. And I was wondering what the trend there is, rate that you are realizing in some of these individual lines pretty much sort of at the same level they were 90 days ago let's say or are they improving or pulling back at all?

Richard Scott Rager
Executive Vice Chairman

I'd preface my response by saying first of all we've a very diverse group of operations and the rate enhancements that we have seen over the last year or so, very by specially under-writing in it. Some units have been basically flat up the low single digits while others have been up by high single digits to just a bit in excess of 10%.

Our core business in total is probably averaging something in the mid single digit range. I would follow that by saying that the beneficial realization of rate increases is influenced by market competition. But as an under-writing company our basic objective is to achieve rate adequacy irrespective of the cycles and thus a more steady under-writing returns.

I think the press more recently has been centered on the worker's compensation book of business and those rates are driven of course by state approved loss costs and by class and largely by individual industry for the most part. Those rates we see, we've seen rates approved in the mid single digit all the way up to the low double digits.

Ronald David Bobman
Capital Returns Management, LLC

What I was trying to focus was the change like what you are seeing now and what you were seeing 90 days ago, is the market enabling you to sort of get more rates, same rates or less or less retention I guess.

Richard Scott Rager

Executive Vice Chairman

We're seeing a market I guess is roughly the same as it was about 90 days ago.

Operator

With a follow up question, we return to Steve Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

What's your take on whether the government really sort of sticks with in a sense the plan that's coming out from the FHA or FHFA whatever it is? In terms of the merger of Freddie Mac and Fannie Mae and the idea of pushing more of the under-writing of home finance back into the private sector.

Aldo Charles Zucaro
Chairman & CEO

Well we think for what it's worth, we think that it is good government policy to try to reduce the exposure of the American tax payer to the housing finance sector of the American Economy. As to how the government ends up doing that, we don't know. On the other hand whatever it does in that area should be beneficial to the private sector. You have to remember that just looking at the mortgage guarantee industry before it imploded starting in mid-year 2007.

The industry had something close to $20 billion of statutory equity. And today, after having incurred all the losses that have been incurred which fundamentally on industry-wide basis wiped out that entire $20 billion. The industry is sitting on $6 billion to $7 billion of capital and the last numbers we have are as of year-end 2012. So it may be let’s say $10 billion now, after some of the companies put in more money in there through either public floating of securities or whatever.

So the point is we are still at half of where we were as an industry in terms of committed capital. So if the $20 billion was right as capital, necessary to carry the private sector MI risk at the end of 2006, well if the government on the other hand now ultimately reduces its interest in the mortgage insurance business through Freddie, Fannie or what have you; well then it stands to a reason that there is going to be a need for much more capital.

In the private sector, whether that capital is required by just the MI sector or by a combination of the MI sector and the banking sector having to carry more of the sliver more of risk on the mortgages.

So I think whatever happens to the extent that the ultimate outcome is a reduction in the U.S. governments direct, or otherwise interest in mortgages that falls in the hands of the private sector, you are going to need more money in the business.

And that augurs well particularly and provided that underwriting standards remain at reasonable levels so that we don’t end up in the soup again in terms of underwriting standards which to a large degree caused the implosion we have all experienced during this downturn that we are just beginning to come out of. Does that answer your question, Steve?

Stephen Mead
Anchor Capital Advisors, LLC

Yes, no, no, it provided the nice, I mean that’s good, thank you.

Operator

And that does conclude today’s question and answer session. At this time I will turn the conference back over to management for the additional or closing comment.

Aldo Charles Zucaro
Chairman & CEO

We don't have any more comments. We gave them in the first half hour of this visit and here we are just about top of the hour now and we appreciate very much the questions and the interest that they evinced on the part of all of our listeners, shareholders. So said that we wish we are off for the rest of the day, and look forward to next quarters visit and update on our business

Operator

And ladies and gentlemen, this will conclude today's conference. Thank you for your participation.