S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

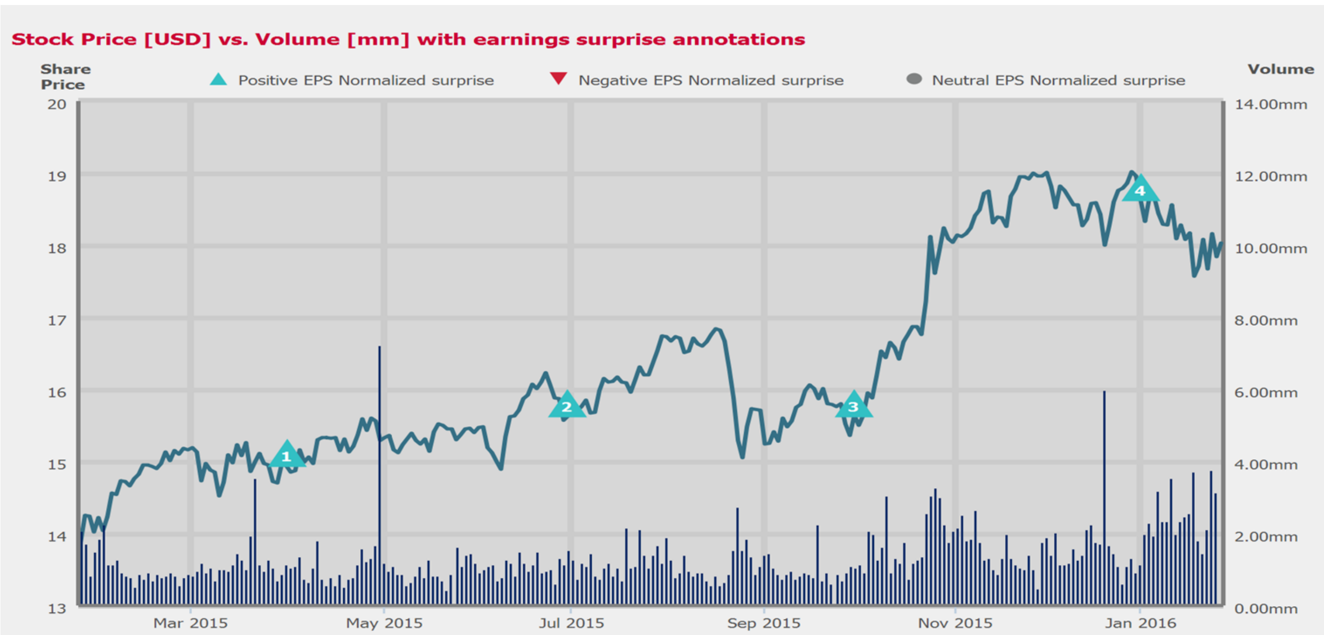
FQ1 2016 Earnings Call Transcripts

Thursday, April 28, 2016 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.28	0.33	13.79	0.33	1.32	1.42
Revenue (mm)	1354.00	1369.30	1.13	1430.00	5790.00	5743.00

Currency: USD
Consensus as of Apr-19-2016 5:22 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.24	0.32	33.33 %
FQ2 2015	0.24	0.32	28.00 %
FQ3 2015	0.27	0.35	29.63 %
FQ4 2015	0.27	0.29	7.41 %

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Marilynn Meek

Rande K. Yeager
Chief Executive Officer and President

ANALYSTS

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

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

Christine Amanda Worley
JMP Securities LLC, Research Division

Presentation

Operator

Good day, and welcome to the Old Republic International First Quarter 2016 Earnings Conference. [Operator Instructions] I would like to remind everyone that this conference is being recorded, and would now like to turn the conference over to Ms. Marilynn Meek with MWW Group. Please go ahead.

Marilynn Meek

Good afternoon, everyone, and thank you for joining us for Old Republic's conference call to discuss first quarter 2016 results.

This morning, we distributed a copy of the press release and posted a separate statistical exhibit, which we assume you have seen and/or otherwise have access to during the call. Both documents are available 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 and statistical exhibit dated April 28, 2016. 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 and Chief Financial Officer; Craig Smiddy, President of the Old Republic's General Insurance Group; Rande Yeager, Chief Executive Officer of the Old Republic's Title Insurance Company; and Al Zucaro, Chairman and Chief Executive Officer.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, thank you, Marilyn, and good day to everyone on this call.

As was just said, we have our regular cast of 4 Old Republic senior executives here today and they'll participate, if necessary, and answer questions that may -- that are related to this morning's earnings release.

And with this first quarter's call, we thought we would do something a little different by limiting ourselves just -- to just a few remarks that highlight what we consider to be the most important points in the release, and then open it up to the question-and-answer period, as was just said. In doing this, we are assuming, of course, that you -- everyone that's listening that -- has read the release or alternatively can see it on your computer screen as we speak or, otherwise, can go back to it after the call.

So here it goes. Starting with the results for the General Insurance Group in the most recent quarter, those were somewhat below par for the reasons that we've given on Page 2 of the release.

Title Insurance, on the other hand, performed quite a bit better than we anticipated, particularly in light of the fact that new mortgage disclosure requirements had been slowing down the closing process throughout the country. But judging from the results that we have posted, this obviously seems have been largely avoided by both our agency and direct operations people in a very nice way, I might say.

The RFIG runoff, as we state on Page 4 of the release, that performed up to par insofar as the MI portion is concerned, but it did, unfortunately, underperformed, however, in regard to the much smaller CCI line. And in this latter case, we're still dealing with litigation costs that are still sapping the vitality that remains in this line, and that's vitality that will be useful to us to achieve a successful runoff in it, which we believe we can accomplish.

There isn't much to report in regard to our corporate operations and the very small life and accident line that's part of this aggregated component of our business.

So overall, the consolidated results, as you can see in the second table on Page 5 of the news release, it benefited a great deal, a whole lot from better underwriting and service performance for the combined General and Title Insurance businesses as well as strong and appreciable increase in investment income, again, for the news that we've given in several sections of the release as to investment income, in particular.

Net income-wise, we produced a very good bottom line as the management of our portfolio delivered much greater realized investment gains this year in comparison with those that were secured in the first quarter of 2015.

Looking quickly at the balance sheet of our company. It continues to be as sturdy ever. As you can see on the first table on Page 6 of the release, the shareholders account edged up about 6.5% on a per share basis for the first 3 months of this year. And again, as you may see, they are readily -- about 30% of this, overall-wise, came from earnings net of the first quarter's cash dividend. But most of the rest, it came from unrealized gains stemming from securities markets-driven fair value improvements in the bond and mostly the common stock portfolio.

So there you have it, as short and sweet as we can make it. And even though quarterly earnings, as we like and repeat, do not mean very much in a business such as ours that's managed over relatively long cycles, it does help all around when we can start the year on a positive note. And for this first quarter, that note is holding in the generally positive term and the cadence of the last 3 years' playbook and, of course, that playbook is all about regaining and surpassing the earnings and book value growth momentum that we had before the onset of the Great Recession. And I think the results for the last 3 calendar years and, now, through the first quarter underline that objective and our expectation -- our full expectation that we will regain that momentum.
So on that note, and as we've said at the beginning of this call, we'll now turn the meetings to the portion -- the Q&A portion to address any questions you may have. So let's do that.

Question and Answer

Operator

[Operator Instructions] And we'll take our first caller, Greg Peters with Raymond James.

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

I wanted to ask just a big picture question around risk management. You -- clearly, there's been some other participants in the market like AIG that have been some financial challenges. And I'm wondering if you can speak to your ability to grow that business with new account growth, not only last year, but the prospects for the outlook for this year?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, as you know, Greg, we have a big chunk of our business -- historically, we've had a large section, particularly of the workers' comp line, and it bounces around. But over time, it's been anywhere between 45% and as much as 60% of our comp business, a lesser percentage of the trucking business and a lesser percentage of the general liability business that has been written on some sort of loss-sensitive or alternative market approach, as we refer to it in the industry. And that business has stuck to us through thick and thin. We've got a great history throughout our system of keeping that business. We are always typically looking at 90% retention rates. And it's been a wonderful service-oriented -- and risk taking business for us with major U.S. financial services and industrial corporations.

We do our own shtick, as you know. In our business, we don't pay much attention to the competition because we don't know typically what makes them tick. And so we only have our service capabilities and our knowledge and our good name and brand to deal with. And each year, we have had very good results in increasing that business, whether it is in the general financial services or general industry, trucking or other parts of our business in each of our major operations.

So it's all good. It helps us achieve very good results. And we like the -- obviously, the partnership approach that's achieved through that type of underwriting process in our company.

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

Okay. When I was going through the press release, you spoke of the uptrend in the claims ratio. I think it was on Page 2 of your release as it related to the General Insurance results. It looked like, at least on a quarter-over-quarter basis, the claims ratio improved a little bit. But I was struck by your commentary later on that page, too, where you talked about reverting back to a long-term average of the high 60s, low 70s. As you think about targeting that type of result, when do you think you might be able to get there? Is it -- are we still a couple of years away? Or do you think it's a lot closer than that?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, the comment was made in the context of the quarter-to-quarter and year-to-year changes in our loss ratio for years starting the 1/1/12 to-date. And if you -- as I'm sure you have in your files, you can see that there is a substantial and gradual increase in the ratio through 2014, and then it became a little more attenuated in 2015 and then it's at about the same level, as you see, in 2016.

What we mean by reaching back to the high 60s, low 70s, which would be in the area of, let's say, 68%, to 71%, 72%, okay, that range, that's a range if, again, if you go back to our long underwriting history in the General Insurance business, that's a range that we have achieved fairly regularly. I mean, there was a few bumps here and there that were easily overcome prior to 2012. So that's what we mean by the last paragraph in the General Insurance section of the release.

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

And just, Al, when we think about the numbers going forward, is there sort of a timeframe you have in mind in terms of when you're going to be able to get back to those historical long-term averages?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. I think within the next 18 months, we should be there, 18, 24 months. It's a gradual process. I mean, we can't predict, as you know in our business, what loss ratios are going to be quarter-to-quarter, let alone year-to-year, but -- so that's why we look at trends more so than anything. And when we look at trends, we don't look at trends in the loss ratio by itself. We also look at trends in the underwriting quality of the business, changes in that quality and we look at trends in the pricing situation for each of our businesses. And the composite of that is what leads us to feel pretty good that we're going to gradually evolve towards those longer, better -- or lower loss ratios.

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

Perfect. Perfect. Just 2 other quick questions and then I'll re-queue. First, you did mention in your comments the litigation issue. And I know in previous quarterly conference calls, you speak -- spoken about the potential from -- for some settlement. And it seems to get continually delayed. Can you give us an update on that?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. I think -- I hope I'm not telling tales out of school, but I believe that we are finished with the litigation or the substantial litigation we had in the mortgage guaranty business. So I think, as I understand it in our 10-Q, you will see that there is a -- either an elimination of the reference to that litigation or else an attenuation of it to the extent that it's in the final stages of settlement and it will be resolved within our reserve structure. So that will not come back to haunt us going forward.

So the only litigation -- we have 2 pieces of litigation, just one of it being with Bank of America and the -- its Countrywide acquisition, which, as you know, has been a source of, I presume, as you know, the source of ageofore [ph] for Bank of America and Countrywide. And that, I mean, that's a slow, slow boat to China. And then, we'll get it done. It's just a matter that because of the monies involved and the aberration that's been created over all these years of legal battles that it's harder to come at -- for it to come to conclusion. But we'll get it done. I don't think that we're going to see any significant upward adjustment in our estimate of what it's going to take to resolve that situation.

Having said all that, I hope I don't have to eat crow, but that's the best I can say right now.

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

So as it looks like today in the 10-K -- the 10-Q that's going to come out, you're going to have the removal of the language with no financial impact that is a subsequent event to the end of the quarter. Is that correct? This is all the context...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

With respect to the RMIC litigation.

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

Yes, that's correct.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

[indiscernible] that litigation with Bank of America, RMIC guaranty and then the CCI. Mortgage guaranty as well, but speaking to CCI is still in the note.

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

Got it. And then, just the final question, and I'd be remiss if I didn't throw something in Rande's direction. But Rande, perhaps you could give us an update on your perspective of the title backlog? There seems to be a lot of mixed signals on the economy these days. And perhaps, it's caused you to have a changed perspective on origination volumes for 2016 and the outlook for the business. But perhaps, you could just give us some color there. And again, that would be my last question.

Rande K. Yeager
Chief Executive Officer and President

Right. Greg, yes. So I have every reason to believe that the mortgage origination numbers will actually increase over original estimates. The MBA just released the newest figures last week and the refinance buying rose 41%. I think it was about $585 million from $414 million or something like that or -- and so that was up 45% and, let's say, purchase money transactions should be up about 10%.

So looking at that, that signals a stronger year than we had in 2015, and so looking at it in terms of that perspective. In fact, Al and I were talking about this morning, I mean, while we don't have what we would call a robust economy or the one that's growing quickly, rapidly -- at a good pace, we've at least got a soft growth economy facing us. And all of that is good, that signals a lot of good things for the mortgage industry. And I also read just within the last couple of days that wins are increasing while the affordability of homes are going down, which means that we might get some of those first-time homebuyers into the market that we needed for a long time. But it's really good to see we're open again.

So I'm -- while I was cautiously optimistic at the beginning of the year, I'm beginning to remove the cautiously from that part of the optimism. And we really look forward to a pretty good year then.

Operator

[Operator Instructions] And we'll move next to Adam Liebhoff with Loomis, Sayles.

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

My one question, I think, is just for Rande. I wonder whether there's any way for you to quantify or maybe give some color around the impact that the CFPB's increased disclosure rules had on the Title business? And I think I'm looking for something in terms of timing as well as maybe cost of closing.

Rande K. Yeager
Chief Executive Officer and President

Yes. I hate to quantify it to a very big back line, but I can tell you that, yes, it definitely slowed the process. And if you -- it varies by lender. You'll hear 2 weeks up to a month, generally speaking. So that process slowed things, which should signal a much poorer first quarter than, at least, our company experienced. And so we are quite satisfied with the results of the Title company based on what we had seen happening since last October. So that was really a good signal for us.

And the CFPB isn't keeping people from buying homes. They're trying to make it easier for them to acquire homes and make the running practice more transparent. And while that's happening, now it would be up to the consumers. All we'd tell you is that we're working hard to adjust and maneuver as an industry. And we were prepared for it. And I think we're able to take advantage of a situation that could have turned out to be bad. And I won't say it's turning to positive because things have slowed, but I don't see it greatly impacting our business. So I would say that the CFPB is trying to do their job and the lenders are trying to do their job to deal with the new requirements and disclosures and the liability issues that are out there they have to deal with.

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

I mean, has that sort of impacted the close rate at all, thinking about the delays and the increased level of disclosure? And if not, is it just sort of a tale of deferred activity versus activity being absent?

Rande K. Yeager
Chief Executive Officer and President

Yes, yes. That's not curtailing deals, but it did. And I think we absorbed that extra period into the closing process. In other words, let's just say that slowing -- slowed closing down for 2 weeks. Well, after we had that 2-week period in the last, say, in the last October, November, beginning of December. It seems now we're just proceeding at a little bit slower pace, but it's not -- it will -- and this is our company's perspective. It's not slowing our business at all, or causing us to see much of an impact. So it's hard to say, but I'd have to say that we're dealing with it and I don't see it being a continuing problem for our company.

Operator

And we'll move next to Christine Worley with the JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

I have a question on the loss ratio in the workers' compensation line. It looked like it took a pretty decent step down, both from where it's been running for the past couple of years and especially versus 1Q last year. Can you just talk about what's driving that and if there's any favorable development in that number?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Craig, you want to take that?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Sure, Christine. Yes, I think as we mentioned in some of the prior calls, we were taking some reserve strengthening over the course of the last few years. And we expected that to moderate this year, and it has. So I wouldn't say there is favorable development in that number. But certainly, the degree of reserve strengthening has gone according to our expectations, and we haven't seen that to the degree this quarter.

Operator

At this time, we have one question remaining in the queue. [Operator Instructions]

We'll take our next question from Greg Peters with Raymond James.

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

I wanted to circle back to the commentary that appears in Page 2 of your press release as it specifically relates to the pricing and declining volume in your construction book of business. I was wondering if you could provide us some color on how large that book of business is, and what the rate or price decreases that you're seeing in the marketplace, and how much is the business down in the first quarter?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Craig, do you want to address that and I can...

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Sure. Sure. I'd be happy to do that. Yes, Greg, I think the majority of the decline is coming, as we stated here, from the large account business. As you know, we have construction within several portions of our General Insurance Group, but it's really the large account construction where we're seeing very competitive rate environment. Even though some competitors have indicated they're exiting the business or tightening the screws, it seems that there are a lot of other competitors that are very aggressive in that large account space right now.

So as I mentioned last quarter, we're maintaining our underwriting discipline. We will not chase underpriced business. And as such, we have seen the business decline somewhat in the large account space as far as a top line percentage, I would say, in the area of 15% to 20%.

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

And just as a follow-up. When you speak about large account construction business, that's not to be confused with the risk management portion of your business for workers' comp and some commercial auto, correct?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

That's right. Even though in construction, we do write large deductible business that we would consider loss-sensitive and, to a degree, risk management business. The risk management business that we write within our other segments is not as affected there. We're very far removed from the risk. And it is the client that is taking the majority of that risk. So it is not that business where we're seeing the challenges.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

You might mention, Craig, the size of the accounts, generally the range of accounts that we categorize as large, mostly risk transfer business?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Yes. The large construction accounts that we write are in the area of $250,000 premium to excess of $1 million of premium. And on a large deductible basis, given that the client is retaining a lot of that risk, the premiums are less than that.

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

Is -- just as a follow-up, Craig. Are the Aon GRIP program or the Willis WillPLACE or the Marsh MarketConnect programs, are they helping you to generate any incremental premium?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Let me address that. As you know, I mean, you've followed us for a long time, Greg. We always view ourselves as living in glass houses and, therefore, we don't like to throw stones. And therefore, we don't address competitor-specific questions.

Operator

And it appears that we have no further questions in the telephone queue at this time.

I'd like to turn the conference back over to today's presenters for any additional or closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, thank you very much. It was very good visiting with you all and we look forward to our next quarter's and next year's release. And then, hopefully, they'll be as positive as we expect them to be. So you all have a good day.

Operator
And this concludes today's call. Thank you for your participation, and you may now disconnect.