S&P Capital IQ

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RLI Corp. NYSE:RLI

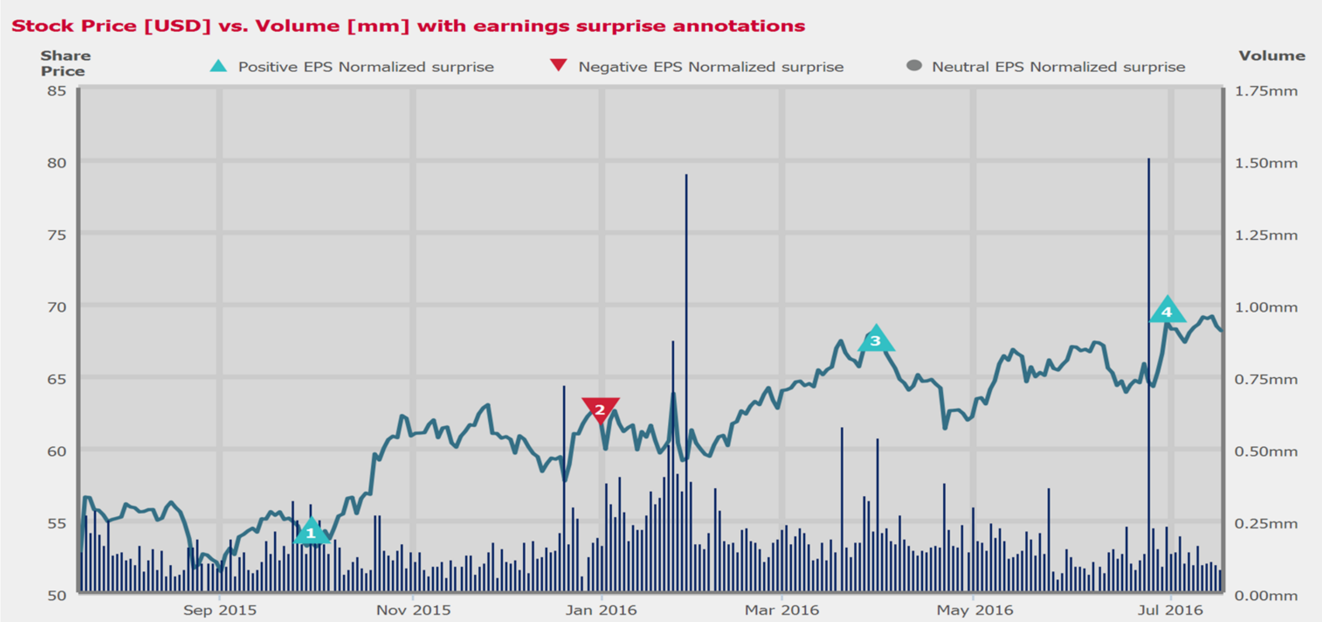
FQ3 2016 Earnings Call Transcripts

Thursday, October 20, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.59	0.37	(37.29 %)	0.55	2.32	2.25
Revenue (mm)	196.79	206.35	4.86	197.84	785.24	800.68

Currency: USD
Consensus as of Oct-20-2016 1:37 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.58	0.70	1 20.69 %
FQ4 2015	0.64	0.56	2 (12.50 %)
FQ1 2016	0.49	0.54	3 10.20 %
FQ2 2016	0.60	0.61	4 1.67 %

Call Participants

EXECUTIVES

Aaron H. Jacoby
Vice President of Corporate Development

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

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

Ian Gutterman
Balyasny Asset Management L.P.

Jeff Schmitt

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

Kyle M. Kavanaugh
Palisade Capital Management LLC

Matthew John Carletti
JMP Securities LLC, Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Ronald David Bobman
Capital Returns Management, LLC

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning, and welcome, ladies and gentlemen, to the RLI Corp. third 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 the 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 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 third quarter results.

RLI management may make reference during the call 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' definition of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings. The Form 8-K and press release are available at 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 H. Jacoby
Vice President of Corporate Development

Thank you. Good morning to everyone. Welcome to the RLI Earnings Call for the Third 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 market conditions. Next, we'll open the call to questions, and Jon will finish up with some closing comments.

Before I turn the call over to Tom, I'd like to point out a minor correction to our earnings release, which isn't material but still worth clarifying. In the first paragraph of the Underwriting Income section, the $1.4 million figure refers to development in the third quarter, not the 9-month period. We've updated the earnings release on our website to reflect this.

Tom?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Thanks, Aaron, and good morning. We reported operating earnings of $0.37 per share for the quarter. Results were impacted by higher than normal 94 combined ratio. While respectable, this does not meet RLI's high expectations. For the 9 months ended September 30, 2016, the combined ratio was 89.3.

Maximizing underwriting profit remains a primary focus. Broken down by segment, Casualty came in at 99.8, Property at 98.7, while Surety continued to perform well at a 67.5 combined ratio.

Unlike prior quarters, we experienced unfavorable loss development on prior years of $1.4 million, a first in over 10 years. The Casualty segment incurred approximately $4 million of unfavorable prior year's development. This result was driven largely by transportation and personal umbrella and served to offset otherwise favorable development across most other casualty lines, including general liability.

The Property segment experienced approximately $1.5 million of unfavorable prior year's development but was also impacted by storm activity. Q3 storms, largely flooding in Louisiana, added $4 million in losses or approximately 11 points to the segment's combined ratio.

Surety, on the other hand, continued to experience favorable loss activity with nearly $4 million in favorable prior year's reserve development during the quarter across all product lines.

Despite the inherent potential for quarter-to-quarter variability in both reserve releases and storm activity, RLI's business model continues to benefit from highly diverse product portfolio. Craig will have more to say on this in a moment.

Turning to the top line. Gross written premium grew 3% in the quarter. Casualty led the way with 10% growth, while Property declined 8% due in part to our exit of crop and Facultative Reinsurance. And Surety was down slightly at 2% but remains up 3% on a year-to-date basis.

Investment income declined 3.3% in the third quarter of 2016 compared to the prior year quarter as we're investing new money below the average yield on existing positions. The investment portfolio continued to post strong total returns of 0.8% for the quarter and 6.9% through 9 months. Planning interest rates and positive equity market conditions continue to drive positive total return performance.

With regard to our minority investments for Maui Jim and Prime, we had equity and earnings of $1.6 million and $0.3 million, respectively.

In summary, our focus remains on [ph] profit and growing book value, which has grown an impressive 14%, inclusive of dividends, through the 9 months ended September 30, 2016.

And with that, I'll turn the call over to Craig.

Craig William Kliethermes
President and Chief Operating Officer

Thanks, Tom. Good morning, everyone. As Tom mentioned, we were able to grow top line for the quarter at about 3% while reporting a 94 combined ratio. Although our underwriting margins were below the exceptional standard we have set for ourselves, we were still able to report another quarter of underwriting profit and a year-to-date combined ratio of 89%.

Our premiums have grown at 5% for the year after adjusting for the exit from certain property reinsurance businesses. The associates at RLI work hard every day to maximize the underwriting profit we deliver to our shareholders. This quarter was no different. Our experienced underwriting and claim teams continue to report this as one of the most difficult, prolonged soft markets they have encountered, but their experience and their excellence are the differentiators that will continue to distinguish us through all the parts of the cycle.

Let me provide more detail by segment. In Casualty, we grew 10% for the quarter with a combined ratio of slightly under 100. For the year-to-date, we have grown the segment 8% with a combined ratio of -- at 94. We continue to see growth in our surplus line Casualty business driven from our excess liability business and a combination of several new products we have added in this space. These products are performing well. We also continue to see double-digit growth from our investment in commercial package businesses. This is a result of offering to meet the property and casualty insurance needs of the small to medium sized professionals as well as expansion of the CBIC business we bought in 2011. It is important for us to reach scale in these products in order to leverage our investment and drive good margins in this business.

As Tom mentioned earlier, we did see some adverse development in our transportation product this quarter. Although adverse for the quarter, we still believe there is underwriting margin in this business, and we continue to grow it. We have grown 24% for the quarter and 17% year-to-date. We have also realized mid-single-digit rate increases in this business throughout the year. We have identified an underperforming geography and class of business within our specialty commercial auto unit that has contributed significantly to the adverse development. True to our motto, underwriting profit first, we are curtailing our writing in the problem jurisdiction and class and taking every opportunity to get more rate.

Our personal umbrella business also experienced some adverse development this quarter but remains profitable, and we continue to invest in ways to grow it. We are carefully studying loss cost inflation and claim practices where we have experienced adverse development, but we have yet to see any significant trend in our actuarial studies. The prior year development we have identified for the quarter can largely to be attributed to an unusual increase in the number of severe losses, which can move the dial when dealing with the relatively small niches of specialty businesses. We will closely monitor underlying trends and take swift action, where needed, to remain profitable.

Our Property segment was down 8% for the quarter while reporting a 99 combined ratio, inclusive of catastrophe losses. Net of the catastrophe losses, the segment posted an 88 combined. For the year, we're down 12% with an 88 combined ratio. Adjusting for the exit from certain property reinsurance businesses, we're down 4% for the year. Most of this decrease is the result of continued rate reductions in the cat exposed products and the reunderwriting of our recreational vehicle business. The RV business was also adversely impacted this quarter from the Louisiana flood with an unusual concentration of loss at one service facility. The Marine business also suffered losses arising from the Louisiana flood and some small adverse loss development on prior years.

Our largest business in this segment, our E&S property division, weathered the quarter with a sub-70 combined ratio despite the continued challenging rate environment.

Premium for our Surety segment was down 2% for the quarter but still remains up 3% year-to-date. Our underwriting margins for the quarter and year-to-date are very good. Our premiums were down for the quarter as a result of some larger bonds being exonerated as well as increased competition. We are still seeing double-digit growth in our transactional miscellaneous Surety business, while larger risks with bigger aggregates are increasingly difficult. This is a very good business for us. We will continue to protect our underwriting profit through a combination of consistent appetite, selective pruning and growing those products and accounts that allow us appropriate margins for the risks we bear.

Overall, we are still finding some growth opportunities, and the underwriting results for the quarter and the year remain very profitable. The bar is and will remain high at RLI. The difference between RLI and the industry in which we compete is that a 94 combined ratio is a disappointment to us. Although I've been reminded that even Itzhak Perlman plays an off note on occasion, that provides no solace to the RLI associates and shareholders who have come to expect exceptional performance. We ask every RLI associate to come to work every day, apply their narrow and deep expertise, identify and address areas of improvement and maximize the underwriting profit we can deliver to shareholders. I'm confident that is exactly what we will continue to do.

Thank you, and I'll turn it back to Aaron.

Aaron H. Jacoby
Vice President of Corporate Development
Thanks, Craig. We can now open the call up for the questions.

Question and Answer

Operator

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

Randolph Binner
FBR Capital Markets & Co., Research Division

I wanted to focus in on the adverse development. And you provided some good detail on the opening comments there, but the transportation book's been growing. So just kind of curious if this particular region and class of business has been part of that recent growth, what accident years this development was associated with. And then any kind of color you can give us, whether it's a function of frequency or severity of claims within the book. And any color you can give us. Obviously, the big question folks are going to have is, is this kind of a onetime isolated thing that you guys are going to really kind of snuff out? Or is this something that could be more kind of endemic in the commercial auto area you've been growing?

Craig William Kliethermes
President and Chief Operating Officer

Randy, this is Craig Kliethermes. I mean, it's -- the area that we saw the adverse experience in is more specifically in New York, and it's emergency transport vehicles. It has been part of our portfolio for the last 4 or 5 years. It's not really been part of the recent growth as much. It did grow -- and if you look -- go back to growth in '13, '14, '15, that they grow a little bit there. It's been more stable. We've been a little more cautious there recently, suspecting something might be up. But we saw a little more activity this quarter than normal. New York is notoriously slow to develop even for primary low attaching business. And I think we're seeing that as we speak. We have -- we are very carefully looking at that book. We're curtailing our -- any new writings and looking very closely at our renewals in that space. So you can expect we're taking sufficient action in that area to address the problem.

Randolph Binner
FBR Capital Markets & Co., Research Division

So these are like ambulates, like the transport people from place to place? Is this New York metro? Or is it the whole state?

Craig William Kliethermes
President and Chief Operating Officer

It's mostly in the metro area because that's where most of the business is. But we do write it statewide. We write it countrywide, frankly. We have not been seeing activity across the country, I might say. Just it's been localized.

Randolph Binner
FBR Capital Markets & Co., Research Division

So is this -- is it a severity issue driven by trial bar activity? Or is it something else?

Craig William Kliethermes
President and Chief Operating Officer

Well, I don't think I can comment on the drivers quite yet. But I think, certainly, for the quarter, we would identify it as an increased number of large claims. Probably -- frankly, about twice what our normal activity would be for a quarter. Now twice for us as a fairly small number of claims, so you have to kind of take that with a grain of salt. But that can move the dial a little bit given the size of our book of businesses.

Randolph Binner

FBR Capital Markets & Co., Research Division

And then on the personal umbrella, what is the nature of the -- so the concentrations of severe losses? So is that like normal kind of fluctuation you expect to see? Or is there -- were there some commonalities to those -- to that concentration?

Craig William Kliethermes
President and Chief Operating Officer

It was similar in regards to severity. The activity was, I'll say, maybe close to 2x normal activity in the quarter for, what we call, large claims over $500,000. So -- and it looks like, at least for the quarter, it was mostly in the area of elderly drivers. It is what drove most of that.

Operator

And we'll take our next question from Arash Soleimani with KBW.

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

I was just hopping on to Randy's question. So is there something where we should expect the initial exit in your loss picks to be higher going forward based on what you're seeing?

Craig William Kliethermes
President and Chief Operating Officer

Arash, this is Craig Kliethermes. I would say not necessarily in this product line. I mean -- well, I would remind you that although the development was adverse for the quarter, the actual -- our estimate of the loss ratio is still below where we have originally booked the accident years for that business. So we've been taking it -- those reserves down some as we thought that the activity was lighter than has materialized this quarter. So we're actually just moving it back up a little closer to where we originally booked it. So we still believe the business is profitable. It doesn't really have -- when we look at a longer 4- or 5-year period of time, it really isn't having a significant impact on where we currently view the business. And as I mentioned, I think, in my written comments is that we're still trying to grow this business. We still think this is driving an underwriting profit.

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

And which accident -- you mentioned the accident years, the adverse came from?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Arash, it's Tom Brown. For transportation, it's the more recent accident years 2013 through 2015. And pop is mostly just the prior accident year 2015.

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

Sorry, it was 2013 to 2015 you said for transportation?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Transportation, yes, it was 2013 through 2015. And then pop is almost entirely the 2015 accident year.

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

Okay. And what was the comment? I heard -- you said something about elderly drivers without -- within the transportation. Which element of the transportation book have the issues with elderly drivers?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

No, that's really -- I'm sorry. I should have clarified. It was within our personal umbrella book. So that was a personal umbrella specific comment, and we don't have a lot of elderly drivers driving trucks.

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

Okay, okay. And then the other thing I wanted to touch on besides the development, in terms of the tax rate, that was better than I was at least looking for this quarter. I was just wondering if there was anything unusual there.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, Arash. It's a good point. It's Tom Brown. Yes, it came in at about 28.5 versus a little over 30 prior year, and it's really the mix. The underwriting is going to be at more of the statutory rate of 35%. But the investment income is lower, more in the 20% to 24% range. So it's mixed, with the lower $10 million -- $10.6 million of underwriting income this period versus $33 million in the third quarter of last year. You get that mix and slight increase or improvement in the effective rate.

Operator

We'll take our next question from Ken Billingsley with Compass Point.

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

One of the questions I wanted to ask was on the expense ratio. Specifically, property expense ratio rose more than we've seen in prior periods. Why is that trending that way given higher accident year loss picks and the reserve additions that we've seen?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Ken, it's Tom. The expense ratio, it's going to be affected by the loss picks with the loss ratio. I just want to clarify your question. You're speaking to the expense ratio?

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

I am speaking to the expense ratio. I mean, generally when we've seen companies have higher losses, maybe there was a profit sharing in there and that would reduce it. But it looked like the loss or the expense ratio actually went up year-over-year, higher than what we had seen trending for the prior quarters.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes. It -- that could have a nominal impact, but it's really -- our fixed expense base for that property book is -- has been largely maintained in the past calls. But as the top line has declined, the expense ratio is going to increase. Also, the exit of crop, although the impact has been diminishing, it had a very low acquisition cost to that. And since that's gone away, the mix is going to increase the expense component of the ratio. So in -- yes, the way we incent people, pay our product people, has an impact because it's based on the combined ratio. So that does have some of the effect, but I'd say the 2 main drivers are the fixed cost and then the exit crop.

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

So obviously, there was a little bit of mix but also the shrinking business overall?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes.

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

Okay. And then on the Surety side, I know you've given a little color here, but this is the first time we've seen premiums down both on a gross and net basis. The last time we've seen it in either one was back in second quarter '14. Can you just say -- elaborate a little bit more on some of the changes? I know you mentioned competition as being one factor there, but can you talk about expectations in there? Because -- I mean, it's profitable business. I can't imagine that competition is going to go away.

Craig William Kliethermes
President and Chief Operating Officer

Ken, this is Craig Kliethermes. No, competition's not going away. We've had our Surety people in here just yesterday I think and talked about strategy and things like that. So I don't think they foresee it's going away either. They continue to see a fairly soft market, reinsurers willing to take a big -- their -- a big portion of the risk for some of these primary companies backing them, which obviously makes it even more difficult. And I think we're going to continue to look at our portfolio. And if we have an opportunity to grow it, I think I mentioned we are growing our transactional business. Those are smaller bonds. But the larger stuff, particularly in the commercial and energy surety space, are very, very difficult. Standards are lowering every day in regards to either increased commission and then lowering the bar in regards the indemnification. And we refuse to do that. We're just not going to do that. So I can't tell you what's going to happen in the future. But certainly, we think it's a very difficult market.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Ken, it's Tom Brown. I would just add that we did have a reinstatement premium in our Surety book that was part of that as well during the quarter.

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

Okay. You're used to -- and you talked about reinsurers taking a little bit larger risk and allowing the mixed primary companies to step into a marketplace that maybe don't have as much experience. Have you -- what is your thoughts on using reinsurance there given your relationships with accounts to avoid -- at least to maintain market share?

Craig William Kliethermes
President and Chief Operating Officer

Well, we use reinsurers extensively and surety to make sure we have enough capacity for the larger risk that we've never believed in. We never believed in lowering our standard -- our underwriting standards just because we have some capital behind us. That's temporary capital, by the way, because they could very easily pull that capital as soon as bad things happen. So we're gross line underwriters. We want to make money for ourselves. And obviously, hopefully, it makes money for the reinsurers, too. But we utilize reinsurance to get to the capacity we need, but I don't think that's a long-term play for us as to try to use dumb capital to do dumb things.

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

All right. Last question before I turn over to the person is just on the investment portfolio side. I mean, just lower investment yield in general for a reinvestment standpoint, but my calculated portfolio yield for the quarter was higher. Can you just talk -- is there -- was there any kind of shift or change? I guess, we'll get some more color when the Q comes out, but can you talk about anything that might be driving the higher calculated portfolio yield this quarter?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Ken, our -- we're looking -- the book yield has, I think, declined a bit from the prior year. But we have to had a bias towards higher-quality assets in the past 9 months. Treasury -- we've moved a little more the treasuries towards the end of 2015 and then mortgage-backed in the first half of 2016. So yes, and the book value is up for the entire portfolio for the year as well at $100 million.

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

Sure. Is that -- I'm just looking at it calculating invested assets versus reported return for the quarter. I know it's more of a simple calculation, but just trying to use that as a comparison from period to period. It looks like it actually rose. I'll follow up after the call.

Operator

[Operator Instructions] We'll take our next question from Jeff Schmitt with William Blair.

Jeff Schmitt

The core casualty loss ratio looks to be up about 100 basis points after being sort of flat to down over the last 2 quarters. And it doesn't sound like commercial auto is necessarily driving that. Can you maybe speak to that? Is it being more broadly felt across lines?

Craig William Kliethermes
President and Chief Operating Officer

Jeff, this is Craig Kliethermes. The -- I mean, we've seen -- I don't think our numbers necessarily think the current accident year is up over prior year. So it's closer to flat even -- maybe even slightly down. So I don't know. I mean, it absolutely depends on I think where you allocate some of the development and things like that. But I don't know that we see that. I mean, frankly, our current year is, from a reserve perspective, has been coming in favorably.

Jeff Schmitt

Okay. And are you seeing -- others have -- other companies have talked about it. Are you seeing any change on the litigation front at all and more aggressive tactics being used?

Craig William Kliethermes
President and Chief Operating Officer

Well, Jeff, it's Craig. I mean, all the information I have mostly is anecdotal from our claim department, and so I do want to speak to facts. And it's certainly isn't, too, the stuff that we've seen in our underlying data yet. I think everybody knows traffic fatalities are up. I think that has been broadly reported in The Wall Street Journal and other places, which obviously leads to more incidents and more potential -- or more claims. I think, certainly, from our claim department, they would -- they monitor it fairly closely and talk about verdicts are up, not necessarily for us. But across the borders, some fairly large verdicts out there, which does, by the way, embolden plaintiff attorneys to increase the amount of their demands. And maybe they, at least, expressed a willingness to walk through the courthouse doors. And that inevitably will have an impact. I think if that's really the case, what's happening, if we can -- if that can be proven out is that over time, that will probably increase settlements. If that's the case, it will affect people broadly, and it hopefully will create an opportunity for more rate. But it's not -- I don't think it speaks well to social inflation over time if that pans out. But right now, all that evidence is anecdotal and piece meal. And I have not seen it in our aggregated data, although we're watching and monitoring it closely. And if we see it, we will react appropriately.

Operator

We'll take our next question from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Just wondering if you could talk a little bit about rates. On the Casualty side, will you guys be able to get any more rate in Q3 versus Q2? And then also, just the transportation and personal umbrella rates. Can you talk about where those are now and where you expect to take those maybe in 2017?

Craig William Kliethermes
President and Chief Operating Officer

Sure. Scott, this is Craig again. The -- for third quarter across -- I'll say, across the board, we've not seen more rate in third quarter than we did in the second quarter, okay? It's kind of bounced around this plus or minus 2% in most products, the exception being a couple. The wheels based business, which we were -- and I think I mentioned. We're already getting increases in the transportation space, both -- all across the board, trucks, public and commercial auto, mostly in the public and commercial auto space. There's a lot of pain there. It continues to be mid-single-digit rate increases. I can assure you, we're pushing for even more as much as the market will bear. And in our RV space, I guess that would be one place that we did tick up because it's an admitted regulated product line, and we were able to get some increases approved in certain larger jurisdictions. Took a little longer than some others. So that rate increase is starting to kick in, and that's a little closer to high single-digit rate increases. So we expect, based on this activity, we're going to push probably even harder in that space. But across the rest of Casualty, I'd say rates are fairly flat, both quarter-over-quarter and year-to-date, plus or minus. And Property, we're facing the same things we faced in the past. Particularly in cat exposed business, rates are down anywhere from 10% to 15%.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, that's helpful. And then the -- so the growth that you're seeing in the other parts of Casualty, can you remind us some of the specifics there? And so there's no real change in appetite in those lines where you're seeing -- I think you mentioned the good returns on those. So could you just refresh us on your thinking on those?

Craig William Kliethermes
President and Chief Operating Officer

Yes. And I -- just to reemphasize, we haven't changed our appetite in transportation or personal umbrella either, okay? We still have an appetite. We did find a small subset of our business that we're going to address, but our broad appetite for transportation business is still -- we're still looking to find ways to grow that. But in the -- across other Casualty businesses, I think I mentioned our excess liability business within the surplus line space. We're still seeing good opportunities there and still growing, I'd say, close to double digits, maybe not quite double digits for the year. And we're also seeing some -- a fair amount of growth in the package business that I mentioned, which is CBIC is about a $40 million, $50 million business of property and casualty packages mostly on the West Coast. We continue to see more growth there. We're trying to expand into other states. We're trying to offer some other classes. It's been very profitable for us. Very profitable before we bought it, continue to be very profitable. And then we also -- I think I've mentioned in the past that we are offering property and casualty packages to our professional liability clients, small to medium professional liability clients. It started with architects and engineers, but it's expanded to miscellaneous tech professionals. And frankly, any nonmedical professional, right now we're offering those packages. And we've still been able to grow at a pretty much double-digit pace, and the loss ratio has still been very good. But we have to get scale there. It's quite an investment to build a package system and have that capability, and that's something a little bit new for us. So that does put a little pressure on the bottom around the expense ratio side of things. So -- but the loss ratio is still very good in those products.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

All right. That's fair. And then last one. Do you have any comment at all on Hurricane Matthew, some of your exposure or anything you can share there? I know it's early on, but...

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, you're right. It is very early on. You're only 12 days really removed from the event. So any estimates at this time will be, obviously, very preliminary in nature. But as we've looked at it, and we do have a good handle on where all our exposures are, we really believe that net impact is somewhere -- certainly not more than Sandy back in 2012, which was about $13 million net. But again, I'd qualify that, but it's very early.

Operator

We'll now take a question from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had 2 auto questions -- commercial auto questions. The first one is for general. It sounds like from answering, I think, the last questions that, I guess, putting sort of the New York matter aside, that the sort of hard market in commercial auto and the competitive environment really hasn't seen any change. It's still a market struggling and that the rates are going up with no sort of letup in sight. Is that fair?

Craig William Kliethermes
President and Chief Operating Officer

This is Craig. We've -- I would say that we continue to see that. We continue to see opportunity there, and we continue to see we're already able to get a rate increase. I think they're obviously within different jurisdictions and within different subsegments of that business. It's still -- I'd say it's still quite competitive in the truck arena. But in the other areas, public, specialty, commercial auto, it's -- maybe it's a many hard market. I don't know. The rates aren't going up double-digit yet, so I wouldn't quite say it's a hard market. But certainly, wherever we get some rate to offset, if there is these underlying trends that are impacting us certainly to offset a little more than normal and certainly better than flat. So...

Ronald David Bobman
Capital Returns Management, LLC

Okay. And then I had a question about the New York sort of emergency transport. Is that a program? If so, how long have you been on it? And do you handle all the claims?

Craig William Kliethermes
President and Chief Operating Officer

Not a program, and we handle all the claims. And we've been on it -- well, we've been growing it over, I'll say, the last 6 or 7 years. It grew -- it's really been flat since, I want to say, 2014, maybe mid-2015 when we started to slow down some of that growth. First, it was in the nonemergency medical. We had -- that was a problem area for the -- us there, but the emergency medical is still performing well. Now we've also seen it in the emergency medical transport, so we're going to take some more action in that space.

Operator

[Operator Instructions] We'll go next to Ian Gutterman with Balyasny Asset Management.

Ian Gutterman
Balyasny Asset Management L.P.

So I also want to follow up on some of the reserve questions. So first, I thought maybe to frame it little bit. Typically, in a quarter, in the Casualty book, you'd be releasing $10-plus million. Is the right way to think about it that the $4 million of Casualty -- I mean, the $4 million additions to Casualty was that there was $15 million of adverse development between the transport and the umbrella? Or was the sort of typical reserve releases smaller and I'm overestimating the adverse?

Craig William Kliethermes
President and Chief Operating Officer

Ian, this is Craig Kliethermes again. I mean, certainly, the -- we have variation in our development by product every quarter, okay? There are small adverse and sometimes, large favorables or we've had large adverse before. But these 2 are 2 of our bigger product lines. And although we've had favorable development almost across the board in most of our other casualty products, these 2 are fairly sizable. So they offset the favorable development that we have in other product lines.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I guess, I was wondering, so there is not a sort of broad-based slowdown in general releases, it's more that would just these 2 lines offset the normal releases? Is that fair?

Craig William Kliethermes
President and Chief Operating Officer

I think it's very difficult to read from quarter-to-quarter. We don't -- try not to manage the company quarter-by-quarter. I can show you the results from quarter-to-quarter can be a little volatile from a reserve standpoint. We write a lot of little niches, okay? And in -- within those niches, a little bit of movement can have an amplifying effect, both directions. We do have the benefit of being diversified. So overall, it tends to be very favorable, but these 2 product lines were a little bit of an outlier this quarter.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then just to clarify one other thing on those 2 lines. Was this sort of a -- once you identified a problem, was there sort of a catch-up? Meaning, I don't know if you listened to the Travelers call earlier, but they talked about when their personal auto book, that their reserve addition was not just this quarter but that they revised up their picks for the first half. Was there anything like that, that this is sort of a multi period catch-up? Or is this really something that just emerged in this quarter?

Craig William Kliethermes
President and Chief Operating Officer

Well, as Tom said, there was an impact across a couple accident years. So -- but as far as a triggering event or a complete catch-up, I would say no. Although anytime you see something unusual, at least the way we react to things, we see something usual, unusually, you look for all causes. So you're going to take a deep dive and -- to look in at a lot of different things. So -- but I wouldn't attribute this to a catch-up or anything.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, okay. And was this -- were you starting to see deterioration on this over the past few quarters, that it was small and not enough to make you think it was something to be too concerned about? Or did this kind of catch you by surprise this quarter, that this is kind of the first time you noticed this?

Craig William Kliethermes
President and Chief Operating Officer

Well, again, I'd reemphasize that the results are fairly volatile. So what you might say in retrospect look like a trend, it certainly wasn't anywhere near the size of this. So if there was small adverse, we wouldn't necessarily react to small adverse numbers given some of the volatility. So -- but we're taking a deep dive, and we'll look at it. And I can assure you we're on top of it.

Ian Gutterman

Balyasny Asset Management L.P.

Got it. And can I just clarify this as far as the emergency vehicles? I wasn't clear. Was this sort of typical auto type incidence, meaning the vehicles had crashes? Or was it like the people in -- being taken care of by the paramedics were mistreated and it's more of a medical liability issue?

Craig William Kliethermes
President and Chief Operating Officer

No. They were -- these are just typical auto accidents, but they happen to involve emergencies, medical. You can imagine -- sometimes there were patients in there and sometimes there weren't. But that wasn't -- this is not a liability other than, of course, you're liable for anybody that might be a passenger in your vehicle. But this isn't that there was any medical liability or anything like that. This was [indiscernible].

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And the medical liability issue from last quarter, there was nothing new on that front?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

No. Ian, again, yes, you're referring to the medical impairment that we took last year on the acquisition of Rockbridge. It has really I think continued -- fairly consistent with what we would have expected. There was some unfavorable principally related to the 2014 accident year and really specifically to one account. That's one of the triggering events in the impairment analysis. So that was I think expected in the third quarter here.

Operator

We'll now take our next question from Matt Carletti with JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

I think most of my topics have been covered. Just a big squeeze, one last in, just a question on Maui Jim. Seasonality aside, I know the back half of the year is a little slower. Can you just give a quick update on kind of the trends they're seeing in their business?

Jonathan E. Michael
Chairman and Chief Executive Officer

It's Jon. Yes, Maui Jim continues to perform well. They've had an uptick in advertising, and it's a very high-quality product. So they're performing as expected, I would say, for us from our standpoint.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. And then the -- I know the other kind of part of that line is a bit smaller, but is there anything of note with kind of how the relationship with Prime is evolving?

Jonathan E. Michael
Chairman and Chief Executive Officer

Well, it's good. Our relationship with Prime is very good.

Operator

We'll now take our question from Ken Billingsley with Compass Point.

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

Just I wanted to follow up. I mean, if I understand the reserve answers you've given, it seems like that they're isolated in nature. The personal umbrella is not an overlying trend. The auto was on a geographic focus. So with that in mind, I would ask a special dividend question. You guys paid one since 2010. Does the impact in this quarter change your view on capital and expectations over the next 1.5 years that would at least would take that off the table?

Jonathan E. Michael
Chairman and Chief Executive Officer

No. Our view on capital is looking forward, Ken, how much capital we're going to need. And like I've said in the past, if we don't believe we have opportunities to use that capital, we'll give it back to the shareholders. So no change in that view.

Operator

[Operator Instructions] We'll now take a question from Kyle Kavanaugh with Palisade Capital.

Kyle M. Kavanaugh
Palisade Capital Management LLC

Could you -- is it possible to size the New York metro area the premium size relative to the overall portfolio or just the transportation segment at all?

Craig William Kliethermes
President and Chief Operating Officer

Kyle, this is Craig Kliethermes. I mean, the book of business for emergency medical transport in the New York area is about $5 million to $5.5 million. So it's a small portion of the total transportation. It's even a smaller portion of RLI, but it's definitely underperforming.

Kyle M. Kavanaugh
Palisade Capital Management LLC

Okay. So -- and then just a question on reserving mechanics. Is it all actuarial formula based? Or is there any kind of subjective kind of part of it? And when you're reserving for like -- if this business continues to experience these trends to put in that kind of buffer?

Craig William Kliethermes
President and Chief Operating Officer

Kyle, this is Craig. So I mean -- so you're asking me kind of an actuarial -- the actuarial process. Certainly, there's mechanical processes. There's 5 or 6 different methods. But as of any actuarial methodology, there is some judgment, some expertise that we would count on in our actuarial department to -- deciding on weights of between methods and things like that to come up with final recommended ultimate loss ratio.

Kyle M. Kavanaugh
Palisade Capital Management LLC

Okay, got you. And just one with regard to the storms in Louisiana. What did you say about reserves related to that? I think you mentioned it, but I missed it.

Craig William Kliethermes
President and Chief Operating Officer

Kyle, there's about -- I think it's about $4 million loss to RLI. It was mostly contained to our Marine and our RV business. And there was a lot of flooding that went on there. And we don't normally cover flood, but for those particular product lines, which is more like equipment or automobiles. And I think you'll see this in other places, the biggest losses, I think, in the flooding will be automobiles or mobile vehicles or equipment. Usually, you cover water related loss to those.

Operator

And 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. With 3% growth in premium year-to-date and 89 combined ratio, that's very good by industry standards. We think we've been in the business of beating the industry for many, many years, and we think we'll continue to do that. But we are in the business of smoothing our customers' loss events. As such, our earnings can be lumpy. It doesn't happen very often, once in 10 years. But they can happen, and it did happen. And our diversified portfolio of products helps us to manage our way through that and -- to not be lumpy or to not have too many lumpy earnings quarters, but we did. We remain very positive on our product portfolio, our underwriting discipline and our direction.

I want to thank you for listening, 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 number of 5773623. This concludes our conference for today. Thank you all for participating, and have a nice day. All parties may now disconnect.