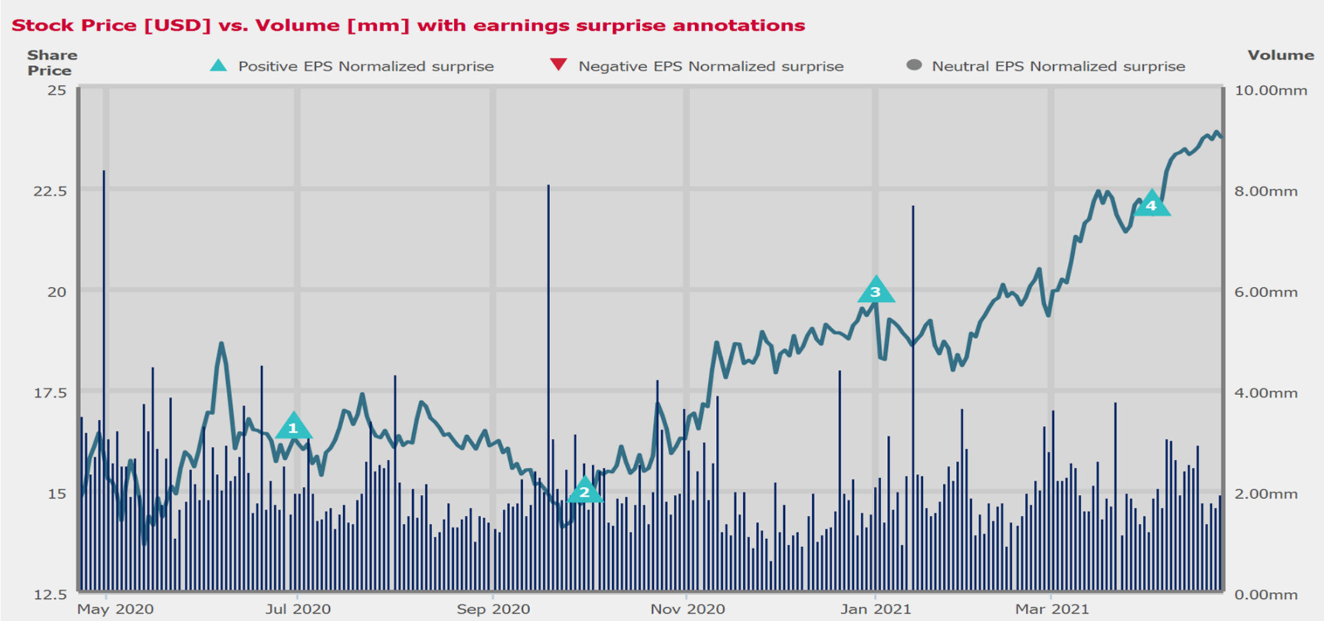
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ1 2021 Earnings Call Transcripts
Thursday, April 22, 2021 7:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.45	0.69	▲53.33	0.45	2.05	NA
Revenue (mm)	1715.00	1979.60	▲15.43	1710.00	7099.00	NA

Currency: USD
Consensus as of Apr-22-2021 4:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	0.40	0.42	▲1 2.44 %
FQ3 2020	0.44	0.62	▲2 40.91 %
FQ4 2020	0.44	0.75	▲3 66.67 %
FQ1 2021	0.45	0.69	▲4 53.33 %

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EXECUTIVES

Carolyn Jean Monroe
President

Craig Richard Smiddy
President, CEO & Director

Karl William Mueller
Senior VP & CFO

ANALYSTS

Boris Kuzmin
Crawford Investment Counsel Inc.

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

John Thomas Heagney
Dowling & Partners Securities, LLC

Matthew John Carletti
JMP Securities LLC, Research Division

Ryan Winrick

ATTENDEES

Joe Calabrese

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Old Republic International First Quarter 2021 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Joe Calabrese with MWW Group. Thank you. Please go ahead.

Joe Calabrese

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss first quarter 2021 results. This morning, we distributed a copy of the press release and posted a separate statistical supplement, which we assume you have seen and/or otherwise have access to during the call. Both of the 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 supplements dated April 22, 2021. Risks associated with these statements can be found in the company's latest SEC filings.

This afternoon's conference call will be led by Craig Smiddy, President and CEO of Old Republic International Corporation and several other senior executive members as planned for this meeting.

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

Craig Richard Smiddy
President, CEO & Director

Okay. Thank you, Joe. Well, good afternoon, everyone, and welcome again to Old Republic's First Quarter 2021 Earnings Call. With me today, we have our CFO, Karl Mueller; and we have Carolyn Monroe, the President of our Title Insurance Group.

So we're here again with another great quarter that we're very happy with. Exceptional performance in both General Insurance and Title Insurance drove the strong consolidated results we posted for the first quarter.

Total net premiums and fees increased to $1.84 billion in the quarter, up 18%. With consolidated pretax operating income of $255 million, up 47%. And a consolidated combined ratio that was 4.2 percentage points lower for the quarter coming in at a 90.9%.

In General Insurance, we saw a slight growth in premium relative to the first quarter of 2020 when premiums were not yet impacted by the effects of the pandemic. And in Title Insurance, we grew premiums and fees by 40%, and that was on top of a record-setting first quarter in 2020.

So as demonstrated in these strong results, our specialty strategy continues to produce growth. And profitability and our diverse portfolio of specialty products in both General Insurance and Title Insurance has again delivered value to our shareholders.

So with that, I'll turn the discussion over to Karl to discuss some of the per share figures along with some added color on our investment portfolio. Then he'll turn things back to me to cover General Insurance. And that will be followed by Carolyn, who will discuss Title Insurance. And then, of course, we'll open up to Q&A.

So Karl, would you go ahead and take it from here?

Karl William Mueller
Senior VP & CFO

Thank you, Craig, and good afternoon.

This morning, we announced first quarter net income, excluding all investment gains and losses, of $206 million or $0.69 per diluted share, which is a 47% increase compared to last year's first quarter. Additionally, shareholders' equity rose to $6.45 billion and book value per share grew to $21.59, that's about a 5.1% increase for the quarter, inclusive of all regular dividends.

So now let me briefly address a couple of key elements regarding Old Republic's financial condition. First of all, relative to investments, we did not make any fundamental change to our investment strategy during the first quarter of this year. And at this point, don't anticipate any material shifts in policy in the near term.

The investment portfolio at March 31 consisted of approximately 72% that were directed towards highly rated bonds and short-term investments, with the remaining 28% allocated to large cap stocks that have a long history of paying and increasing their dividend distributions. The valuation of the equity portfolio improved by $367 million during final -- our first quarter, excuse me, and ended March with an unrealized gain of $1.15 billion.

Net investment income actually decreased by 8.6% for the quarter as the impact of lower yields on new investment purchases more than offset a modest increase in the invested asset base. The average maturity on the bond portfolio remained consistent at approximately 4 years, and the average book yield declined slightly at the end of the quarter to 2.6%. New money was invested at yields just below 2% during the quarter, putting downward pressure on net investment income that is likely to persist throughout the remainder of 2021.

Turning now to the liability side of the balance sheet. Claim reserves grew to $10.8 billion at the end of March and were affected by lower pay loss trends due to the pandemic. All 3 segments recognized favorable claim reserve development for the quarter. And in total, the consolidated claim ratios benefited by 1.8 percentage points for this year's first quarter by comparison to 0.8% a year ago.

And then finally, with respect to our mortgage run-off operation, there's really nothing particularly noteworthy this quarter other than to point out that we did, in fact, resume dividend payments following last year's temporary suspension of capital returns. During this first quarter, the business received approval from our regulators and paid a $25 million dividend to our parent company. So at the end of March, our mortgage company's GAAP shareholders' equity totaled $435 million.

So that hits the highlights. And with that, I'm going to turn things back to Craig to dive into the General Insurance Group.

Craig Richard Smiddy
President, CEO & Director

All right. Well, turning to General Insurance. Net premiums written increased in the first quarter, that followed increases in the third and fourth quarters of last year. And we also saw net premiums earned start to increase again in the first quarter.

Compared to the first quarter of 2020, pretax operating income rose by almost 28%, primarily from our improved claim ratios. The overall combined ratio for the General Insurance Group improved 4 percentage points from 95.6% to 91.6% quarter-over-quarter. The claim ratios reported were, of course, inclusive of favorable prior period development, which was 2.7 percentage points in this quarter compared to favorable development of 0.7 percentage points in the first quarter of 2020.

Net premiums written in commercial auto grew by 8% with positive effects from continued rate increases in the auto liability line, and those were rate increases in the 15% range. And that comes along with a growing exposure base in recent quarters as well.

Our first quarter commercial auto claim ratio improved 73.8% compared to 77% in the first quarter of 2020. Claim frequencies still lower than prepandemic levels, but continues to be offset by higher severity due to greater speed than continued pressure on settlement values.

Turning to workers' compensation. Net premiums written and earned were 15% lower when compared to the first quarter of 2020, where premiums were not yet influenced by the effects of the pandemic. Slight premium rate increases continued this quarter on the workers' compensation line. The workers' comp first quarter claim ratio came in at 56% compared to 71% in the first quarter of 2020. And non-COVID-related claim frequency remains lower than it was at prepandemic levels.

As we've talked about in prior quarters, the impact of COVID-19 workers' compensation claims remains insignificant with about 95% of the COVID-19 workers' comp claims coming from loss-sensitive business and greater than 95% of the

COVID claims continuing to be mild. And I can also report that newly reported claims dropped significantly over the course of the first quarter.

As most of you know, we typically provide commercial auto, workers' comp and general liability together in our product offering. And this combined claim ratio came in at 69.2% compared to 74.1% in last year's first quarter. The financial indemnity lines, property, property line and our other coverage category, those claim ratios remain very healthy and very steady when you look at quarter-over-quarter results.

So in General Insurance, we continue with our strategy to enhance underwriting excellence through better segmentation, improved risk selection, pricing precision, increased use of analytics, along with our focus on providing loss-sensitive programs. We believe this strategy will continue to facilitate strong underwriting profitability, which we believe is even more important now in order to offset the declining investment income that we just spoke about. And the good news is the marketplace remains favorable for us to continue to obtain appropriate prices for our products while maintaining high retention ratios.

So I'll now turn the discussion over to Carolyn who, along with the rest of her team and the Title Insurance Group, continue to knock the cover off the ball.

So Carolyn, I'll turn it to you.

Carolyn Jean Monroe
President

Thank you, Craig, and good afternoon, everyone.

The Title Group is pleased to report record-setting first quarter results for both operating revenue and operating profit. Our employees continue to effectively balance the challenges, although improving of in-person commerce with the opportunities provided by the current U.S. mortgage origination market.

Total premium and fee revenue for the quarter was just shy of $1 billion at $967 million, up approximately 40% from the comparable prior period. This is achieved with the contributions of both our agency and direct operations.

For the quarter, agency premiums, which are typically recorded on about a 1-quarter lag compared to our direct premiums, were up nearly 43%, and premium and fees from our direct operations were up around 32%. Our pretax operating income of $103 million for the quarter compared to $43 million in last year's first quarter, an increase of $60 million or 139%. The combined ratio of 90.3% for the quarter represents around a 5% improvement over last year's first quarter combined ratio of 95.1%.

Having begun the year with a solid foundation, we remain optimistic for the remainder of the year. Mortgage rates are expected to remain near historic lows throughout 2021, providing a catalyst for a continued robust real estate market. Although refinanced transactions are projected to drop over 35%, this is in comparison to 2020's record-setting volume and relatively speaking, will still be at a healthy level. To offset the refinance drop, purchase money transactions are forecast to be up around 16%. Of course, this is good for our business as home sales offer greater opportunities for premiums and fees.

As always, we will move forward with our guiding principles of integrity, managing for the long run, financial strength, protection of our policyholders and the well-being of our employees and customers, with an added emphasis of appreciation for our employees, their dedication, ingenuity and positive attitude.

And with that, I will turn the call back over to Craig.

Craig Richard Smiddy
President, CEO & Director

All right, Carolyn. Congratulations, again.

Well, again, we're very pleased with this quarter's operating results. Our strategy of providing specialty insurance and related specialty products to core industries served by General Insurance and Title Insurance continues to produce strong results for our shareholders.
So that concludes our prepared remarks, and we'll now open up the discussion to Q&A. We're -- I'll answer your question or I'll ask Karl or Carolyn to respond.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Matt Carletti from JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I got a few questions. Maybe, Craig, can I start with your general liability and workers' comp color that you gave. I'm trying to help understand the exposure impacts from COVID. And so is it possible for you to even rough numbers break apart the reduction we saw in premiums in the quarter? I mean, obviously, there's retention, there's new business production, there's pricing and then there's exposure. So how should we think about that in terms of the exposure piece versus the other items?

Craig Richard Smiddy
President, CEO & Director

Sure. So if you look at workers' compensation relative to the last few quarters, the exposures have begun to recover. So said differently, the decline in the fourth quarter over the prior year was greater than the decline is this quarter over, again, the first quarter of '20 when there wasn't any really reflection of the impact from COVID.

So we would expect that beginning in the second quarter, especially when we're going to start comparing premiums to premiums in 2020 that were, in fact, impacted, then the shift should be considerable. But what we saw in the first quarter was just simply a continuation with some improvement in exposure over where we were in the last 3 quarters of 2020.

And with regard to rate, it's very slight. I think your assumption can be just that there's a slight rate increase that we reported on in the fourth quarter, and it was about the same in this quarter.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then my next question, I want to switch to Title for a second. I think in the past, maybe as recently as last quarter, I can't recall, you've touched on the idea of making the technology investments and -- along those lines. I was hoping you might be able to expand on that a little bit just in terms of -- some of the -- which areas, in particular, whether it's underwriting or more kind of interfacing with the agents and then what you might be planning on doing in the Title business on the technology front?

Craig Richard Smiddy
President, CEO & Director

Sure.

Carolyn, would you please address that?

Carolyn Jean Monroe
President

Sure. So it's -- we kind of have a two-pronged approach. We're working on things that speed up processes that -- just so that we can provide better service to our customers and our agents. And we're also working on things that will help our agents have better connectivity to things out there that start coming on the market so that they only have to like go to one place to be able to connect out to other technology that would benefit them. So we're sort of working on all of it if the truth are known. I mean it's something you have to continually evolve around and focus on.

Matthew John Carletti
JMP Securities LLC, Research Division

That's great. And then last one, if I could, just like a broader company question. Can you talk a little bit just about capital? And specifically, are there tangible benefits to kind of having diversified businesses at Old Republic in terms of General

Insurance and Title? And I know MI is in run-off. Or are they kind of on a stand-alone basis and you should think of it more of like independent under a holding company from a capital standpoint?

Craig Richard Smiddy
President, CEO & Director

Well, Matt, I would point you to the comments that we made in our March 31 annual report letter. And in that letter, we talked about the fact that General Insurance and Title Insurance are very complementary under the ORI umbrella. And there's a large amount of synergies with regard to the specialized insurance underwriting approach and products and services that Title and General Insurance both focus on that are keys to our strategy.

And included in the enterprise risk management attributes of having General Insurance and Title Insurance together, as we point out in that letter, we believe the businesses are countercyclical. There's -- they're -- it's important to our tax planning strategies as well as our capital management allocations.

And you may have seen the press release yesterday from AM Best, whereby they make similar comments when they affirmed the ratings in our General Insurance Group and increased the ratings in our Title Insurance Group, pointing to the strategic position and importance of Title in our Old Republic International family and being integral to the overall organization with common branding and talent synergies as well.

So I would just leave it at that and tell you that all of those things we said in that March 31 letter are how we believe the 2 businesses fit underneath the Old Republic International umbrella.

Operator

[Operator Instructions] Your next question comes from Greg Peters from Raymond James.

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

Listen, I was -- I wanted to sort of go at this differently. First, to Carolyn. So I was interested by your comments about the outlook, both for new and refinance. And so I was wondering if you could give us some perspective. If I look at just the 2020 premium and fees earned, which is about $3.3 billion, how much of that was new business versus how much is refinanced? And so when I put together the -- one is going to be down, one is going to be up, it sort of gives me a benchmark of what I should think the number should look like for '21.

Craig Richard Smiddy
President, CEO & Director

Carolyn?

Carolyn Jean Monroe
President

Oh, sorry, Greg. I would say about 25% of our business was refinanced in 2020.

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

Okay. And then just to reiterate, you said that the refinance -- can you give me the numbers you said in the prepared remarks? Which was going to be down? Which is going to be up?

Carolyn Jean Monroe
President

So they're projecting that refinance will be down about 35% over 2020 and that purchases should be up around 16% over 2020.

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

Okay. And so if I sort of ballpark it, that means that based on that outlook, that the year for premiums and fees should be stable or if not, modestly positive. Is that -- I can do the math separately, but that's sort of ballparking it. Is that sort of the right guess that I would have to do?

Carolyn Jean Monroe
President

We're thinking that it should be stable, yes.

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

Yes, yes. Excellent. And then the expense ratio in the Title improved in the quarter, and I don't really want to get too hung up on one quarter's improvement over another quarter. But the annual trend is better. And obviously, there's volume -- there's a volume component to that. But -- and there's -- you also went through some restatements. So talk to us about where you think the expense ratio -- what that should look like given the restatement, given the results, all that?

Carolyn Jean Monroe
President

I would say that it should stay about where it is right now. That would -- we don't like to do predictions, but based on what we're seeing right now, it -- we think it should be in about the same ballpark as it is right now.

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

And can you just walk me through the restatement issue? I would just -- I know it was called out to me, and I just -- if you just walk me through what was going on there.

Craig Richard Smiddy
President, CEO & Director

Yes, Greg, why don't we have Karl help with that?

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

Okay.

Karl William Mueller
Senior VP & CFO

Craig, this is an accounting policy change that the prior practices date back several decades actually, where for a portion of our business, we were reporting premiums and fees earned net of associated expenses. And it became apparent given the growth of the business that we really needed to create consistency in our accounting practices. So at year-end 2020, we made that change to all prior periods to make the comparison equivalent to the year-end 2020 presentation. So it's basically a gross up of revenues and gross up of expensing this to the same dollar magnitude, having no impact on pretax underwriting or operating income. So it had a relatively minor impact to the reported combined ratio 0.1 or 0.2, so it's totally inconsequential and really doesn't drive the numbers significantly. All periods are now presented on a comparable basis. And you'll see slight changes as we go throughout the year on a quarterly basis.

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

Let's go back to General Insurance, and I appreciate your comments around pricing. And I guess what I'm, as I look at your results for the quarter, trying to understand, yes, premium was up a little bit. Is it all rate that's driving the premium higher? Are you getting any unit count growth? It seems to me that at some point, you're going to -- the rate environment is going to become more stable and ultimately, in order to grow the business, we need unit count growth. And so I'm just trying to understand the balance between the 2 in your reported results.

Craig Richard Smiddy
President, CEO & Director

Sure. So I know we've said this and not to continue to reiterate the point, but when you look at premiums this quarter in General Insurance, you have to keep in mind that we're comparing those to first quarter of '20, where there were still growth in those premiums and it was prepandemic. So with the premiums fell commensurately with the reduction in exposures in the 3 quarters of '20 as well as the first quarter of '21, but we stuck -- but it bottomed out in the third and fourth quarters and started to come back in the first quarter.

So our view is that as the economy rebounds and reopens that exposure units, particularly in workers' compensation, will increase fairly rapidly. And like I say, once we get out into the second, third and fourth quarters, and we're comparing those to 2020 quarters, those premium levels, as we think, will be greater, perhaps significantly greater.

So we are seeing exposure return. As I say there, workers' compensation exposures bottomed out in the third or fourth quarter. What we saw in auto exposures were a drop-off in the second quarter of '20 and then things have picked up in auto exposures in the rest of last year and again this quarter. So exposures are definitely coming back.

We would expect them to come back in a much more robust way as we move throughout the year and the economy continues to improve. So right now, it's a mixed bag, Greg, that the -- what you're seeing in that increase is just the effects of coming off or reduced exposure base from '20 and rebuilding that exposure base as we go forward. And then, of course, you're getting -- you're also getting lift from rate. But the exposure base is going to have much more of a contribution -- the exposure base increase is going to have much more of a contribution to top line as we go through 2021 after this first quarter.

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

Got it. And Craig, I think I sent you an e-mail recently. And I think I -- in the e-mail, I was just raising a question from one of your investors around the -- your home warranty and auto warranty business. And I think now might be a good time for you to talk a little bit about it. I obviously understand, relative to the 3 main coverages, it's minor, but thought it might be worthwhile to let you give us an update on Old Republic's perspective on that business, why you think you're positioned to do well in that business relative to this start-up to -- 1 or 2 start-ups that are trying to make ways in that space.

Craig Richard Smiddy
President, CEO & Director

Sure, sure. So in both of those areas, the auto warranty and home warranty, we have continued to invest in technologies to improve our efficiencies and our customer service levels. Both are very strong, profitable businesses for us. And I would say that something that distinguishes us is we don't mass market, I'll call it, as you might see on television or what have you, where you see home warranty and auto warranty companies mass marketing and using that as their distribution channel.

Our distribution channels for auto warranty and home warranty are really point of sale. The majority of our partners on auto warranty, our dealerships and the various administrators that work with dealerships and that will always be an important distribution touch point with the customer at the point of sale.

And similarly, on our home warranty business, distribution is key there as well. Even though, as I say, we're investing in technologies to improve the efficiency at which we manage that business, price the business and how we distribute the product. But the -- our focus is there to a point of sale with realtors. Realtors are key to that. And it's another example of where there are synergies with our Title business, where a key focus of their distribution is on real estate agents as well. And in home warranty, that is a focus. And here, too, I don't believe it's -- that's going away. And -- well, all point of sale will always be important.

However, in both auto warranty and in home warranty, we're also looking at expanding our distribution. Not necessarily to the mass marketing ways of some of the competitors that we all see when we watch television, but through other strategic relationships and making sure that we expand our distribution approaches as well. So hopefully, that answers your question, Greg.

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

That was great color. I guess -- and I know you talked about this upfront, Karl, about the -- and Craig, about the no real change in your approach to the investment portfolio. One of the questions that pops up from time to time is the equity exposure you have. And I know you guys are long term and strategic and all that. I'm just curious, based on the market returns and equities and if you're wondering if this risk-reward is still there in the near term, even though you might have long-term confidence in some of those investments, just curious how you're thinking about those variables in the context of what we're watching in the market.

Karl William Mueller
Senior VP & CFO

Well, Greg, this is Karl. Let me take a crack at answering the question. Craig can fill in if necessary. But our objective really hasn't changed with respect to the equity portfolio. As we've stated on a few occasions, our -- the key objective is to provide yield enhancement to the portfolio overall, above and beyond the yields that we can earn on the fixed maturity portfolio. And we have selectively chosen a portfolio of something a little less than 100 securities in companies that have a very long history of paying and steadily increasing their dividend payout ratios. So it's an opportunity for us to invest and enhance investment income to a large extent with what we believe to be manageable risk. We do perform a number of stress tests at the company level overall as well as for each of our subsidiaries that hold equity securities to ensure that under stressed situations, our capital base is not significantly impacted in any negative way.

So you're right. It does introduce a greater degree of volatility at the net income line item, but that's why our focus in explaining the results tends to focus on operating income that excludes the mark-to-market on the equity portfolio.

Operator

Your next question comes from John Heagney from Dowling & Partners.

John Thomas Heagney
Dowling & Partners Securities, LLC

I just have maybe 1 or 2 quick number follow-up questions. On mortgage insurance, you said that the upstream dividend was $25 million, is that correct?

Karl William Mueller
Senior VP & CFO

That is correct.

John Thomas Heagney
Dowling & Partners Securities, LLC

So that's on a stat surplus base of 100 -- call it, 120 at year-end '20. So then were you able to release some of the contingency reserve in that?

Karl William Mueller
Senior VP & CFO

We were.

John Thomas Heagney
Dowling & Partners Securities, LLC

Am I thinking about that correctly?

Karl William Mueller
Senior VP & CFO

You are. Yes, yes. I -- the number I mentioned earlier in my comments was the GAAP shareholders' equity, the statutory capital, which would include the contingency reserve is in that same neighborhood, $430-some-odd million. I don't have the exact number at my fingertips.

John Thomas Heagney
Dowling & Partners Securities, LLC

No, that's fine. But then presumably, your -- I'm just looking back, that's a higher dividend than generally kind of over the past 4 or 5 years. I mean there's been a little bit coming up, so I would assume then, is the risk in force running off a little bit quicker? Or are you getting state approval to take down the contingency reserve faster? How should I think about the risk in force run-off actually?

Karl William Mueller
Senior VP & CFO

Yes. Well, first of all, just to clarify, we have not, until the first quarter of last year, received any dividends from our mortgage insurance companies for several years, as far back as I can remember. So we started last year and in the first quarter received state approval to pay $37.5 million before further returns of capital were put on hold.

But secondly, your question regarding risk in force, we do include statistics in the financial supplements on Page 6 that has a multiyear comparison of risk in force. And you can see that the run-off is about 25% of any given year, and that continues through the first quarter of this year. Since year-end, it was about a 7.1% decline. And annualized, it's even more than 25%. But it's in that neighborhood, and it's been pretty consistent year after year.

John Thomas Heagney
Dowling & Partners Securities, LLC

Got it. So I can use that -- what's happened as a proxy to kind of just models out going forward for the risk in force?

Karl William Mueller
Senior VP & CFO

I would think so.

John Thomas Heagney
Dowling & Partners Securities, LLC

Okay. And then the other one question I had in Title, approximately -- I mean, how big is the commercial book of business in there? I remember it's somewhere around 18% being discussed, but that might have been several years ago at this point.

Craig Richard Smiddy
President, CEO & Director

Carolyn, can you address that?

Carolyn Jean Monroe
President

Right. For the first quarter of this year, it accounted for about 14.2% of our total premiums.

John Thomas Heagney
Dowling & Partners Securities, LLC

Is that roughly in line with what it is on an annualized basis?

Carolyn Jean Monroe
President

No, that's down. That's -- it's down about 10%.

John Thomas Heagney
Dowling & Partners Securities, LLC

Got it. So it's actually 20% to 25% of the portfolio is how we should think about commercial?

Carolyn Jean Monroe
President

Yes. Right. The first quarter of 2020, it was about 22.4%. Overall, it's generally around probably 18% to 20% on an annualized basis.

Operator

Your next question comes from Boris Kuzmin from Crawford Investment Counsel.

Boris Kuzmin
Crawford Investment Counsel Inc.

I have a couple of questions. One on the General Insurance side, specifically the commercial auto. The improvement in the claims' ratio is great and after many years of kind of issues there. But I guess the question is, are you still getting a frequency benefit from kind of lower driving overall? And how sustainable this improvement is -- I guess, is the question.

Craig Richard Smiddy
President, CEO & Director

Yes, a very good question. The -- there is a frequency benefit that continues. It's not as great as it was in the sum of the prior periods in 2020, but it is a lower frequency. I would say in the low -- it -- right now, it's about, say, a 10% frequency reduction. I think at the height last year, we saw about a 20% frequency reduction.

And then as I mentioned in my earlier comments, severity is still an issue. And unfortunately, the severity is offsetting the benefits of frequency. So the reason that we're continuing to get rate increases in the 15% range is to continue -- we would expect frequency to return to a more normal level. And severity, we're not counting on any change in that trend. So we have to get that 15 -- 10% to 15% rate increase to address the ongoing severity issues.

The last thing I would just say is, yes, the claim ratio has improved. And I know quarter-after-quarter, we were talking about how hard we were working to try to get that down from the peak claim ratios of 2019 and 2020, and all of the things that we were doing, I think, are starting to show up. But I would just point out that when it comes to our -- both our loss ratio pick and when it comes to recognizing favorable development, we have a very patient approach. We're very slow to recognize favorable development on a longer tail line of business like auto liability. And therefore, that reduction that you see in the claim ratio is not one that's coming from a reduction of the current year claim ratio or even the last few year claim ratios. So as to the extent that, that there is some frequency benefit last year and continuing into this year, it will be a while before we would recognize that in our results.

Boris Kuzmin
Crawford Investment Counsel Inc.

Got you. And then another question for you, Craig, in your annual letter that you referred to in the annual report, you mentioned that the stock price performance was, I think you said, incongruent with strong operating performance. So I guess the question is, why not have a buyback program in place for a situation like this, when you stock trades below book value and seemingly not reflecting the strong fundamentals of the business?

Craig Richard Smiddy
President, CEO & Director

Right. So the incongruent comment is certainly how we felt last year. I think our stock was not alone. Majority of others in the insurance and the broader financial sectors, value stock, in particular, dividend-paying value stocks were not treated very kindly last year. So as we said, with those strong results, you would expect commensurate changes in your price. And that didn't happen last year, but it was, I think, more of a result of broader market forces at work.

And with regard to the question on buyback, we also had -- in addition to that, a 2020 annual report letter that you just mentioned. We also issued a letter that's available on our website on January 6. And in that letter, we tried to lay out for our shareholders our thought process on capital management, and I would refer you perhaps back to that letter. And I think that a...

Boris Kuzmin
Crawford Investment Counsel Inc.

I guess that letter didn't really address buybacks versus dividends. You guys outlying why you pay the special dividend, which no one is arguing about in terms of you having capital to do that, but wouldn't it have been better to do a buyback as opposed to -- you could have been immediately accretive to book value and earnings as opposed to paying out a special dividend.

Craig Richard Smiddy
President, CEO & Director

Yes. We -- we're aware that some of our shareholders have raised that question and the matter is -- the subject matter currently before our Board. And the Board is going to address that issue at its upcoming May meeting, after which time, we expect that they'll provide a written response to that question.

Operator

[Operator Instructions] Your next question comes from Ryan Winrick from Guggenheim.

Ryan Winrick

Just a quick one. I noticed almost all of your other miscellaneous debt was extinguished or matured this quarter, so I wanted to ask about that. And then have you provided a long-term guidance range for your debt-to-capitalization ratio? That's all.

Karl William Mueller
Senior VP & CFO

Ryan, this is Karl. First of all, we had a very small balance of debt, a bank issued note that matured in the first quarter of this year. So that's what's driving the decline since year-end.

Yes, we do set parameters for ourselves, what we refer to as our ERM metrics. And generally speaking, the range that we try to operate within is the 10% to 25% debt-to-equity or debt-to-capitalization ratio. And we're well within that and trending towards the lower end currently.

Operator

That was our last question at this time. I will turn the call back over to management for closing remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well, we appreciate the interest by everyone, appreciate the dialogue and the questions. And again, we are thrilled with the operating results that we put forth for year-end 2020 and then the continuation of extremely strong operating results in this first quarter of 2021.

So thank you all for your participation, and we look forward to talking to you again next quarter. Thank you.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.