S&P Capital IQ

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RLI Corp. NYSE:RLI

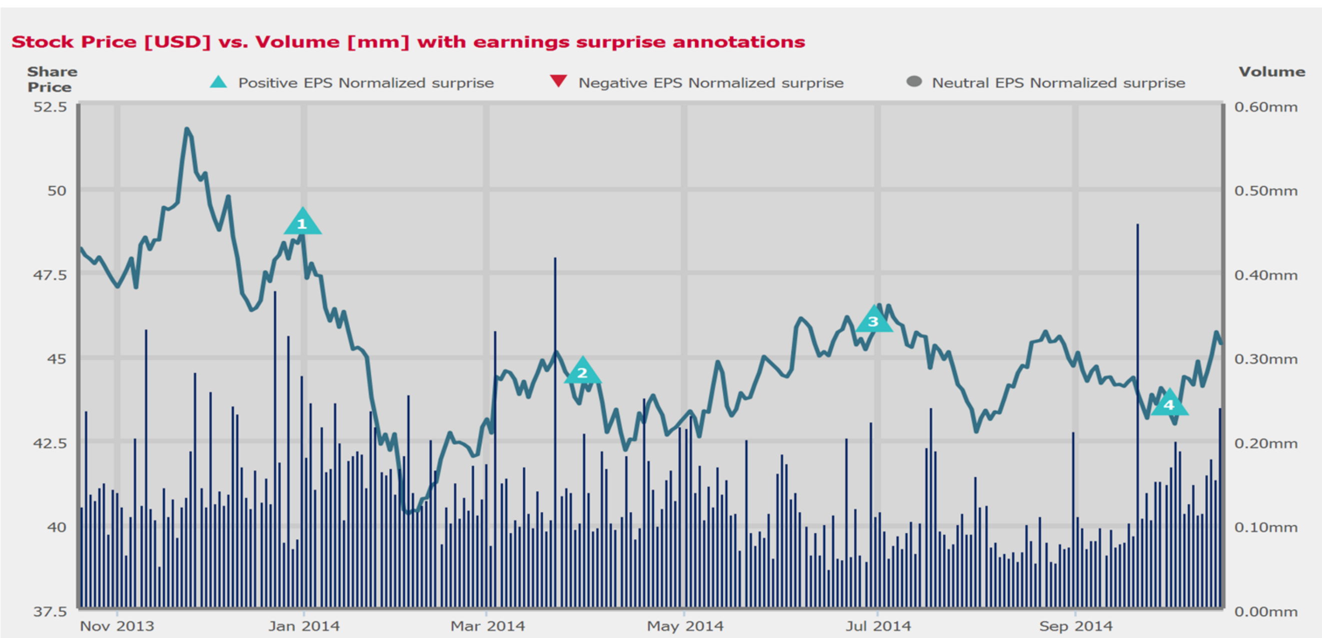
FQ4 2014 Earnings Call Transcripts

Tuesday, January 27, 2015 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.60	0.71	▲18.33	0.53	2.51	2.61
Revenue (mm)	183.58	203.28	▲10.73	186.14	729.73	775.16

Currency: USD
Consensus as of Jan-27-2015 6:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.51	0.72	▲1 41.18 %
FQ1 2014	0.52	0.57	▲2 9.62 %
FQ2 2014	0.60	0.66	▲3 10.00 %
FQ3 2014	0.60	0.68	▲4 13.33 %

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

Michael J. Stone
Director

Thomas L. Brown
Chief Financial Officer and Senior Vice President

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Presentation

Operator

Good morning, and welcome, ladies and gentlemen, to the RLI Corporation fourth 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 in the annual Form 10-K, which should be reviewed carefully. The company has filed a Form 8-K with the Securities and Exchange Commission that contains the press release announcing fourth 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' definitions of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings. The Form 8-K and press release are available on the company's website at www.rlicorp.com.

I would now like to 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 Fourth Quarter of 2014. Joining me on today's call are Jon Michael, Chairman and CEO; Mike Stone, President and Chief Operating Officer; Tom Brown, Vice President and Chief Financial Officer; and Craig Kliethermes, Executive Vice President Operations. I'm going to turn the call over to Tom first to give some brief opening comments on the quarter's financial results. Then Mike and 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. Tom?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Thanks, Aaron, and good morning. We are pleased to announce another solid quarter and an excellent finish to the year. Starting with our most important metric, we posted an 85 combined ratio in the quarter and for the full year. Before getting into the segment breakdown, let me point out that this is the 10th consecutive year with a combined ratio below 90, a remarkable feat in an industry where many companies struggle to achieve combined ratios below 100. Also, it was our 19th consecutive year below 100 combined ratio. I'm certain others on the call will have more to say on this topic later.

Back to the fourth quarter. Each of our 3 segments contributed to this excellent combined ratio with a 90 in Casualty, a 74 in Property and an 84 in Surety. Consistent with prior quarters, reserve releases had a positive impact, most notably in the Casualty segment. While underwriting margins were excellent, on the premium side growth continue to moderate, gross premiums were up 1% and net premiums were up 5%, both slight decelerations from recent quarters and a function of continued competitive market conditions.

This has been true particularly in the Property segment, the only segment experiencing a quarter-over-quarter and year-over-year premium decline. Of particular note, Surety, our highest margin segment, achieved 8% growth in the quarter and 4% growth year-to-date, despite aggressive competition. All in all, given current market conditions, this quarter's growth remained fairly consistent with expectations as well as our ongoing emphasis on underwriting discipline. Craig and Mike will elaborate more on market conditions in a minute.

Turning to investments. The increased investment income rate was a positive contributor to earnings up 3.1% in the quarter to 5.4% year-to-date. Although we have been able to generally maintain average yields on a larger invested asset base during recent quarters, we are not immune to the still challenging current yield environment.

In addition to the positive earnings impact from rising investment income, book value growth was aided by excellent total returns as the portfolio gained 2.2% in the quarter and 8.3% for the full year on the strength of both the fixed income and equity markets.

In addition, Maui Jim, while relatively flat in the historically slow fourth quarter, our full year results were up a little over 10% at $12 million. We also received a $6.6 million dividend from Maui Jim in the quarter, resulting in a tax benefit of $0.04 per share.

In total, the combination of excellent underwriting and investment results drove earnings per share of $0.71 in the quarter and $2.61 for the full year.

During 2014, we returned $160 million in dividends, including a $3 per share special dividend in the fourth quarter. Adjusting for these dividends, book value growth at end of the year, up 21%.

And with that, I'll turn the call over to Mike Stone. Mike?

Michael J. Stone
Director

Tom, thanks. Good morning, everybody. Another great quarter, a great underwriting performance 19 straight years under 100 combined ratio and 10 years under 90, superior by any measure. We do understand, however, that it's not about yesterday, it's about tomorrow. So we'll give you a bit of market commentary, what we're seeing in the marketplace. Make no mistake, we've build a superior underwriting organization with a superior business model, driven by an underwriting profit mindset. As Tom said, combined ratio, 84 for the quarter, 84 for the year, gross written premium up 1% but net 5% for the quarter, gross written premium up 2% but net up 6% for the year, so excellent underwriting performance, while managing to produce growth, however modest, in an increasingly more difficult environment.

Our Casualty business. Gross written premium up 4% for the quarter, 6% year-to-date. Net, up 8% for the quarter and 9% for the year. A few moving parts in the Casualty space but overall still good environment, but starting to feel more competitive pressure.

So our transportation business was up 36% in the quarter, CBIC package business 22%, and our Prime relationship added $2.8 million. While our commercial umbrella business was down 25% and our general liability business, our largest, was flat. So some up, some down and flat. We would expect to see this continue as the markets find its way. More importantly, we think there will be opportunities in smaller subsets of products. For example, in geographic, as we saw on our commercial umbrella business. Our specific product areas like large fleet and transportation, R&D surplus lines like Prime, for a growth for brief periods of time.

So expect markets will move more spasmodically with different subsets within those products, expect this to accelerate and exacerbate as companies get more sophisticated in data analytics, in segmenting their business as data gets more protean. We believe this benefits not just scale our organizations but even those companies that marry deep and narrow experience field-based transaction-led underwriters with that data, that is those underwriters who are nimble and can detect movement much more quickly.

Property. A very difficult CAT market. Our gross written premiums down 9%, superior underwriting performance though with the 74 combined ratio for the quarter and 85 for the year. The CAT business is under pressure from multiple competitive sources including specialists, standards, alternatives, expect us to be competitive going forward. We have deep experience in this space with technically adept underwriters and long-term experience with solid relationships with producers -- and someone is calling us. We hung up on her. We do have great underwriters here and we'll continue to hold our own. We continue to find new niches and new opportunities, albeit small. Craig will talk about the reinsurance, which is a bit of a positive in this arena.

For Surety, a good story -- we're having some technical difficulties here. We okay? Gross written premium was up 8% for the quarter and 4% for the year. All our subsegments in this Surety space are showing growth. Our energy business bounced back from a down third quarter to post-growth of some 10%-plus in the quarter. Our Miscellaneous Surety business continues its steady growth. As I've said before, we have experienced underwriters and claim teams and can meet the competitive pressures no matter how much it intensifies in this space.

Overall, excellent quarter in an increasingly competitive environment with our talented -- dedicated underwriting and claim and support staff, we're well-positioned to not just survive but thrive going forward.

Craig will now talk about reinsurance and give us some rate commentary.

Craig William Kliethermes
President and Chief Operating Officer

Thanks, Mike, and good morning. We placed approximately 60% of our reinsurance on 1/1, which is across 5 treaties covering casualty, property and our multiline businesses. We're very pleased with the outcomes. We achieved risk-adjusted rate reductions ranging between 8% and 12%, the savings exceeded premium of approximately $6 million. We expanded and better diversified our panel of reinsurers, continuing to partner with very high quality names. We broadened our terror coverage, and also received a few other miscellaneous improvements and terms.

We were able to take advantage of a soft CAT reinsurance market by reducing our co-participation by 5 to 10 points on some of our lower layers of our CAT treaty. All of this, including the reduction of our crop reinsurance, should increase our net premium retention approximately 2 points, which should allow us to continue our trend of better net premium growth relative to gross.

On the pricing front, overall rates are flat. However, we are still setting -- we're still getting increases where we think we need it, habitational GL and Property business, Marine and across all of our wheels-based businesses. We also were able to receive some small increases on some of our other casualty products. The CAT market is another story as Mike talked about and the wind and earthquake business, we are having to give back sometimes double-digit decreases to remain competitive. It is a very competitive market and this is where underwriters can differentiate us.

Knowing our niches, knowing the accounts where they can afford to give out decreases and knowing when to walk away, we are fortunate to be an oasis for rational underwriters that have and will continue to make a difference.

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

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Ken Billingsley with Compass Point.

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

I just wanted to follow-up. I missed some of the numbers at the end right there regarding reinsurance and retention. Can you go through that again? My main question is, are you increasing -- it seems like you are increasing your retentions. Can you talk about what levels you're increasing your retentions within the layers? And then again, what the reinsurance, I think, you said was 8% to 12% price savings and it was up $6 million in premium?

Craig William Kliethermes
President and Chief Operating Officer

So this is Craig, thanks, Ken, for the question. No, we are not increasing our retentions. We are increasing -- the premium retention will increase over time as we're not retaining more of the risk but because the rate reductions, you will see the retention, the net premium retention relative to gross written premium should go up over time. And recall that, we did -- we mutually terminated our crop business, which had a significant seeded premium associated with about $22 million and that's been terminated effective 1/1 so that's going away as well. So our net premium retention relative to gross should go up about 2 points, we believe, for the year. We did not take any first additional first dollar retention, we actually bought a little more on our CAT treaty is what I said, in the lower -- layered in into the lower layers, we bought down our co-participation. So we participated in those first 2 layers and we're participating less on a go-forward basis. However, we still received premium and rate reductions overall for our CAT treaty even after retaining less in those layers.

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

And with the CAT coverage getting cheaper, is there a reason -- and also the ability to grow albeit a little more stagnant, is there a reason not to retain some more of the business, maybe temporarily, given that you can cover them at higher level -- level coverage if something big happens but obviously, you're under a 90% combined ratio in general?

Michael J. Stone
Director

Ken, this is Mike Stone, I'll try that and then Craig can correct me. It seems to me that it's backwards. I mean why would we retain more when they're giving it away, and then buy less when it's expensive. So we bought a little bit more this year because it was cheaper from still high-quality reinsurers. As -- I don't know what's going to change the marketplace in the CAT business short of an event, so would we rather have less or more reinsurance when that happens from quality reinsurers.

Craig William Kliethermes
President and Chief Operating Officer

Fundamentally, it was a question of using this cheaper capital that was coming on the market and making itself available and or using our own capital. I believe we made the right decision.

Michael J. Stone
Director

And it's just on the edges in any event, so.

Kenneth G. Billingsley

Compass Point Research & Trading, LLC, Research Division

On the crop business that was terminated, I recall the last conversations you said you were still interested in that line of business and segment. Can you talk about whether you have kind of opportunities there, whether you would look to grow it home-grown acquire a team. And lately, it looks like maybe it hasn't, for the market as a whole, crop hasn't necessarily been as profitable, but can you talk about what you're looking at doing there now?

Michael J. Stone
Director

Yes, Ken, it's Mike Stone again, I'll try that. First off, we're in the Corn Belt here, so right in the heart of agriculture, so we feel like we know a little something about it because we can look outside and see it. But seriously, I mean, we think it's not a bad space for a specialist company to have a bit of that. The problem typically with crop is it has becomes a scale business, that is the MPCI has. So we're looking for niches, opportunities that we can find that would get us a little niche within that space, not necessarily the government-sponsored program but something else, in and around crop or the agriculture area. That's really what we're talking about. Frankly, the MPCI business has gotten way too scale-dependent and wouldn't be a great fit for us at this stage in our development.

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

Last question is on the Surety side. Obviously, you seem pretty bullish on that, talk about the excess competition with your team. You're still seeing a lot of opportunities. Can you talk about where directionally you see the opportunities? Is it regionally-based? Is it a specific product, can you talk about in general, what you're seeing?

Michael J. Stone
Director

Ken, it's Mike Stone again. Yes, we think -- we like Surety. We've liked Surety for the last 20-plus years. Certainly, our miscellaneous, which is our small transaction business, we have a solid footprint there with, we think, superior systems and superior relationships and that really is a small premium so it's a very -- we need to be good at process and good at managing those small premium items. So we think that's good. We think we'll be able to grow that over time. We're not going to grow that real rapidly unless we're able to find some acquisition. For example, we were able to grow it with the CBIC acquisition, which gave us a nice additional footprint on the western part of the U.S., which we have not had as much of a footprint in. So we like that business going forward, certainly our Contract business, we're continuing to grow out. Again, I would say, CBIC has helped us there as well. So we like where we are in the Surety business. We think that's going to continue to perform well, though there's quite a bit of competition as I've said in the past number of quarters. We seem like we get a new competitor a month or a quarter. And -- but people will find out it's not that easy. And there are some structural benefits that we have for being in this business for the length of time that we have, from being able to build systems and build relationships, and understand the difference in those markets. So we think it's a good third leg of our 3 segments. And we'll continue to invest in that business going forward.

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

Great. Last question and I'll turn it over to someone else. Seeing the special dividend increase this year over the prior year, and looking at what it does to statutory leverage, how high do you -- are you guys comfortable given pricing and the direction that terms and conditions may be changing in general from your competitors, how high are you comfortable taking underwriting leverage on a statutory basis?

Jonathan E. Michael
Chairman and Chief Executive Officer

This is Jon Michael. Certainly, it depends on the market. If the market pricing environment turns firm, we certainly are comfortable with 125 or even a bit higher than that. If, in our current market, maybe up to 1:1 or perhaps a little more but 1:1, so it depends on the pricing environment that we find ourselves in.

Operator

And next we'll move on to Randy Binner with FBR Investment Bank.

Randolph Binner
FBR Capital Markets & Co., Research Division

I have a couple and let me start with kind of just a quick one and that's on you mentioned that quake is getting increasingly competitive. I think we talked about it on the last call, that a lot of the incremental competition is coming from alternative reinsurance capital in particular, is that still the case why people would be piling into quake all of a sudden?

Michael J. Stone
Director

Randy, it's Mike Stone. I think I said there's competition from all sources in this business, certainly the alternatives are finding their way in. They're partnering up with MGAs and other companies that are using that capital. But there's not a dearth of competition without the alternatives. So the standard lines companies are moving in, plenty of specialist, including us, in that space. There hasn't been an event of any magnitude for quite some time and memories are fairly short. So we like where we are in that space but we haven't -- if anything we've reduced our exposure over time and managing our tolerance is we think appropriately as we go into this space but obviously at some point in time, it gets too cheap, but obviously reinsurance, the price of reinsurance keeps going down too. So it benefits the ultimate consumer and I guess that's what we're here for.

Randolph Binner
FBR Capital Markets & Co., Research Division

That was going to be -- the reinsurance is the follow-on. Now my understanding is that folks don't buy earthquake coverage whether it's differences -- difference in condition or I guess more straightforward commercial product. I mean, does this mean that more supply is meaning that folks are buying more cover, so we may actually -- if we have an event out in California or something, there'd be more insured losses, is that what's happening on the ground?

Craig William Kliethermes
President and Chief Operating Officer

Randy, this is Craig Kliethermes, the -- no, I would say the demand is still not up despite prices going down. I think our take-up rate is still about the same as what it's been commercial. And I think it's short of 10% of people buy earthquake coverage and I think it's even less than that on the residential side. Unless the banker requires it, it doesn't become a coverage that people think about. As Mike said, memories are short. It's been 20 years or so since the last really big one. It's a discretionary purchase for some of them until it happens, unfortunately.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay. Understood. And then this is maybe a little bit more of a kind of philosophical or I don't know how to describe it, but in the Casualty area, you're kind of showing the increased competition in the market by, I think, Mike said spasmodic changes in the top line, so transportation and package was up maybe 25% or something like that and commercial umbrellas down a lot. And so I guess, I'm trying to tie that with the concept that Travelers had talked about on their call, as rates come down and exposures are the same or go up, basically, your book of business is getting better priced and so your incremental decisions are going to lead to kind of bigger potential changes but with more pricing and ultimately from a top line perspective. Is that the right way to think of it? And can you share with us, in Casualty, kind of where your price increase versus loss trend versus exposure growth is trending? Are all of those lines on the chart kind of converging together at this point?

Michael J. Stone
Director

Randy, this is Mike Stone, I'll take the philosophical point. But that was much more than just philosophy, you have pretty technical there at the end, so we'll let Craig talk about that convergence of rate and trend. But I do -- first off the word was spasmodic, which is a combination of sporadic and spasmodic, in any event, I think what's happening is that companies are getting better at analyzing the data and analyzing their books of business. Now understand the Travelers and us are just significantly different. We're more in the surplus lines space, certainly the specialty space where there typically isn't as much competition. Typically takes more experienced underwriters on the ground to manage that business and be able to select that business. And what we try to do is marry the deep underwriting experience, the narrow deep technical underwriters at the transaction level with better data over time. And being able to out-select, whereas, I think the bigger standard companies are doing it on a technical basis and trying to outrate the competition and do it through those basis. So I think we feel very good about where we sit in the specialty area and I think we can continue to outperform given how we're structured and how our organization is structured. And Craig can talk about trend and rate and where we're headed there.

Craig William Kliethermes
President and Chief Operating Officer

Well, I guess, all I would add on that is trends have been fairly flat, benign over the last several years. Whether they're going to stay like that, it's very difficult to predict. So if you look at it long term, lost cost trends, certainly I don't think that rates overall are keeping up with what we would believe long-term lost cost trends. But certainly, based on reserve releases and how well the entire industry has done generally, they certainly have kept pace with recent trends, recent loss trends. So I would say loss trends have been fairly flat recently across most products. Where it's not, let's say workers comp, transportation, that is where we're getting some increases where we're seeing some spikes in either frequency or severity and the whole market has responded. And any of the one place where I'd say definitely it's probably you can't say it's keeping up is certainly in the CAT space, so, but if you don't have an event, you can be fooled into thinking there's not going to be -- the loss ratio is 0, okay. So what is the trend? That's one of those sporadic lines Mike talked about.

Randolph Binner
FBR Capital Markets & Co., Research Division

Sure, that's helpful. I mean I was kind of thinking more Casualty on the question. And to sum it up, if you were going to say kind of loss trend, pricing and exposures all seem pretty flattish for ROI in the Casualty side, broadly speaking is that fair?

Craig William Kliethermes
President and Chief Operating Officer

I think that's fair. Our underlying loss ratios that we've estimated here have probably been pretty flat across Casualty for the last 3 or 4 years.

Randolph Binner
FBR Capital Markets & Co., Research Division

Yes. And I appreciate Mike's commentary about how Travelers is a different underwriting system than RLI. And I think you know because you used to work there but I think the outcome is the same here and that we ought to get ready for more kind of a wild swing in some of the top lines. And then just on the income statement there the taxes were favorable in the quarter, apologize if I missed them, the explanation for that. But I guess it looks like a true-up for the year, similar maybe to what we saw last year in the fourth quarter. Can we get a little more color on that because we're just modeling the tax rate kind of flat across there and we're probably not alone? So it'd be helpful to understand that better.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, certainly, Randy. This is Tom Brown, it's not really a true up. If you look at -- and it's been consistent, I think, last couple of years in the fourth quarter, with the special dividend and about, I don't know, 10% of the stock is in -- placed in ownership program, ESOP. The tax treatment there is effectively, the dividend is income to those individuals. So we get the corporate deduction at a -- the statutory of 35% and since that happens in the fourth quarter, that has a positive impact on the tax provision there. The other piece is occasionally we get a dividend from Maui Jim, which was a case this year as well as last year. You'll see that in kind of our earnings or earnings per share reconciliation page in the press release. We accrue at a 35% rate, given the expectation that, that will come through more in a capital gains level but when we get a dividend from an affiliate it's at a much lower rate.

Operator

[Operator Instructions] Next we'll move to Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just one to clarify, you had said it was the commercial umbrella line that was premiums were down 25%, did you say what the personal umbrella was down or maybe it wasn't?

Michael J. Stone
Director

No, our personal umbrella was up a little bit -- it's Mike Stone, up 2% to 3%.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

2% to 3%. Okay. And how about pricing on personal umbrella, is that still favorable or has it flattened out?

Craig William Kliethermes
President and Chief Operating Officer

This is Craig Kliethermes, that's an admitted product, so you have to file and get rate increases through regulators if you so desire to do so. And I mean, we try to keep up with lost cost trend and take moderate increases from year to year. So we do take increases to keep up with our loss cost trends in that product line.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So that is probably an example of one where -- a good example of what we were just talking about is in terms of rate and trend sort of matching out. Okay. And then you had said on the reinsurance treaties to think about 2 points increase in the net versus gross retention. Would that be equally applicable across both the Casualty and the Property lines? Or would it be more so perhaps on Property?

Craig William Kliethermes
President and Chief Operating Officer

It should increase -- the retention rate should increase across Casualty and Property but probably disproportionately towards Property because of the crop arrangement. If you think about our crop business, we had -- we ran through our financials in 2013, it's about $50 million worth of premium, we seed about $22 million of that, that's all -- it's not all going away but we're going to have about $8 million to $10 million of net and gross premium remaining, okay. So all that seeded premium is going away and that all hits the property line. But a lot of the savings that we got 1/1 were on the Casualty side, so you're going to see some impact on the Casualty side as well. Surety treaty is not yet placed yet, it's not until second quarter, so, but I don't expect you're going to see any significant changes there.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just the relative size of the line, so a 1 to 2-point move on the Casualty is going to be a lot more than even a 4 or 5-point move on the Property so, okay. Last question. On the investment portfolio, I guess, you guys probably had somewhat the luxury of being a little bit more in cash the last part of the year, is that something that you are examining with interest rates continuing to trend lower in terms of repositioning the portfolio in any meaningful way, particularly on the fixed income side?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Mark, it's Tom Brown. I'm not sure there's anything real discernible on the cash. I mean, we were probably building a bit with the anticipation of the special dividend in December. But we want to be fully -- we really feel like we're fully invested I think the one thing you will see is our duration has come down a bit from about 5 over the last several quarters to about 4.6 years to be a little more neutral on the yield curve but the mix has actually been fairly steady in our portfolio.

Operator

And we'll move on to Adam Klauber with William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Can we talk maybe about capital, obviously, the business isn't growing. Does that make acquisitions more likely? And I guess, along with that, how's the pipeline look for you? And if there are no acquisitions and there's not a lot of growth, does that mean discontinued high level of dividends?

Jonathan E. Michael
Chairman and Chief Executive Officer

Adam, this is Jon Michael. Our position on this has been clear that we manage our capital to the amount of capital, that we think we need in the foreseeable future. And our preferred -- if we are over-capitalized our preferred method of distributing at this point in time has been specials, but we analyze that all the time, you asked about pipeline. There's a good bit of, I'd say, activity across the industry and we're not -- we see quite a few opportunities. I mean some of the recent ones have been mega-mergers, but we continue to look for those opportunities. We will continue to look for ways to deploy this capital. That's our preferred method of using the capital is to deploy it ourselves and return higher than just what you would be getting for a dividend.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And more of a technical question, I'm not sure if you said this before, but for the quarter, it looked like the property accident, your ratio ex-CAT was materially lower. What was driving that?

Craig William Kliethermes
President and Chief Operating Officer

I'm sorry, was it materially lower? Was that the question?

Jonathan E. Michael
Chairman and Chief Executive Officer

I don't know, Adam, maybe catch up with -- we'll have to research that. That doesn't sound like anything we've said here. So we'll maybe research it and get back to you one-off on that one.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then how's the -- and I'm sorry if you said this before, how is the flow of business from standard T&S? Is there's still a decent flow, I mean obviously, property. Property is going tougher all the way around, but excluding Property, is there still good flow of business that was more standard business going to the E&S market or is that slowing down?

Michael J. Stone
Director

Adam, it's Mike Stone I would say it's slowing down a bit. Usually this portion of the cycle, you start to see companies that are looking to grow, having a hard time growing, the standard guys will be a little more aggressive in this space. But it's nothing that's substantial it's just probably slowing down a bit.

Craig William Kliethermes
President and Chief Operating Officer

Adam this is Craig Kliethermes just to go back on your other question. I think it was our RV business saw some significant improvement from the previous quarter and year in results. So I think that's why you're seeing your non-CAT property loss ratio go down and Marine continues to improve as well.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. Is Marine related to rates? Or is that more...

Craig William Kliethermes
President and Chief Operating Officer

It's not it rates and complete reunderwriting. I mean, we actually shrunk that book of business fairly significantly over the year from a reunderwriting effort. So they've both taken rate increases, fairly mid-single digit rate increases in that business for about the third or fourth straight year plus they reunderwrote the entire book and jettisoned 10% of the business or so.

Operator

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

Jonathan E. Michael
Chairman and Chief Executive Officer

Thanks, everybody, for joining us. Another great year for the company, 85 combined, reiterating 10 years under 90 combined, 19 consecutive years under 100. Premiums continue to grow, albeit, at a reduced rate, gross premiums up about 2%, net written for the year up 6. All 3 segments performed well. They continue to perform well. We see a market that is moderating. And in spite of softening conditions, we persevere, even thrive. Book value growth for the year was 21%, that's adjusted for those dividends that we paid, of course.

I'd like to thank our dedicated RLI team for delivering another great year and this does remain a relationship business. We continue to develop those relationships with our production partners and ultimately lead to good customer relationships, as well. Thanks, 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 the ID number of 8301268. This concludes our conference for today. Thank you, all, for participating and have a nice day. All parties may now disconnect.