S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

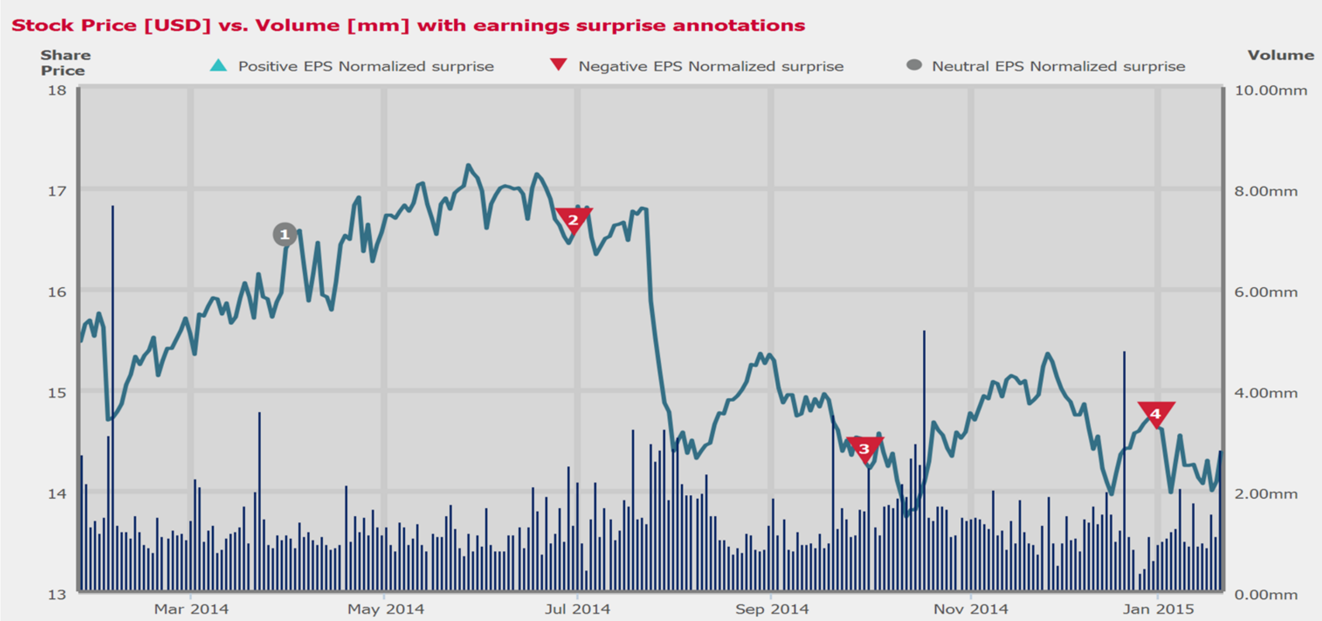
FQ1 2015 Earnings Call Transcripts

Thursday, April 23, 2015 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.24	0.32	33.33	0.24	0.99	1.04
Revenue (mm)	1331.75	1311.30	(1.54 %)	1355.05	5490.55	5554.10

Currency: USD
Consensus as of Apr-23-2015 4:58 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.24	0.25	0.00 %
FQ2 2014	0.26	0.13	(50.00 %)
FQ3 2014	0.26	0.25	(3.85 %)
FQ4 2014	0.24	0.21	(12.50 %)

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Karl W. Mueller
Chief Financial Officer and Senior Vice President

R. Scott Rager
President and Chief Operating Officer

Rande K. Yeager
Chief Executive Officer and President

Scott Eckstein
Director of Account Services

Unknown Executive

ANALYSTS

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

Christine Amanda Worley
JMP Securities LLC, Research Division

Stephen Mead
Anchor Capital Advisors, LLC

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, and welcome to the Old Republic International First Quarter 2015 Earnings Conference Call. [Operator Instructions] I would now like to remind everyone that the conference is being recorded, and to turn the conference over to your host, Scott Eckstein, with MWW Group. Please go ahead, sir.

Scott Eckstein
Director of Account Services

Thank you, operator. Good afternoon, everyone. Thank you for joining us today for Old Republic's conference call to discuss first quarter 2015 results. This morning, we distributed a copy of the press release. If there's anyone online who did not receive a copy, you can access it at Old Republic's website, which is www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated April 23, 2015. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Scott Rager, President and Chief Operating Officer; Rande Yeager, Chairman and Chief Executive Officer of Old Republic Title Insurance Companies; Karl Mueller, Senior Vice President and Chief Financial Officer; and Al Zucaro, Chairman and Chief Executive Officer.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Thank you, Scott Eckstein, and thank you to everyone who've come to be with us in this latest quarterly update on our venerable Old Republic. We have a full contingent of the most senior executives who oversee and guide important parts and functions of the total Old Republic business with us today, as was just noted.

So this afternoon, we'll start the ball rolling with Scott Rager, who will comment on our general insurance business. He'll be followed by Rande, Rande Yeager, who will address the business operations in title insurance, and I'll follow-up with some brief comments on the RFIG runoff business. Karl Mueller will then go over key numbers and other important financial data. And then we'll wrap it up and open up the visit to the Q&A session.

So as we've reported and as we will now discuss this afternoon, we think that we have a very good start on 2015 with both our title and the runoff businesses producing somewhat better-than-anticipated results this early in 2015.

Our general business is pointing to the real possibility. We think that claim costs are not about to -- not likely sting us to the same painful effect as they did last year.

So on that note, I'm going to ask you, Scott Rager, to give your remarks on the general insurance business. And so why don't you just take the ball and run with it.

R. Scott Rager
President and Chief Operating Officer

Thank you, and good afternoon. The general insurance group, our largest, experienced 7.1% growth in net premiums earned year-over-year for the first quarter. We think this is a very good start, given that this number contains elements of both pricing improvements and organic growth; and more currently, we'd say that new business is a driver as well.

In most operations, we're managing yet to reconfigure the general insurance line to achieve a much greater composition of loss-sensitive products. Generally speaking, the rate environment has moderated in most markets, but in operations or product lines wherein we still need the most improvement, we're looking at mid-single-digit rate increases, just as we planned for the year. Customer retention rates continue to trend favorably and are in line with our expectations.

We're not having to yield on legitimate price on considerations to either retain or gain business. For all these reasons, we fully expect our top line growth to continue at or about the same level achieved in the first 3 months of this year. Underwriting results for this year's first quarter were not adversely impacted by development of prior year claim costs anywhere close to the adverse levels experienced in the final quarter of 2014. As you see in this morning's release, we're categorizing the development as being slightly deficient.

Year-to-date, the loss ratio was up 1 point to 73.8%, while the expense ratio remained consistent at 23.5%. All this, of course, results in a composite ratio of 97.3% in this year's first quarter versus a 96.2% in the same period last year. The increase in the commercial auto loss ratio of almost 6 points for this year's first quarter was the primary reason for the group's slightly deteriorated loss ratio in the first 3 months of the year.

As you can see in the statistical exhibit posted on our website, the workers' compensation and general liability ratios are both reflecting marginal improvements compared to the same interim period of 2014.

As for the greater commercial auto claims ratio, the results were basically spread across several operations. In a number of cases, increased frequency or severity, or both, were the main culprits. Nothing points to any scenario requiring a significant corrective response across the board.

At this juncture, we expect the claims ratio for all of 2015 to moderate and come in below the overall 2014 ratios. As the financial supplement information indicates, the general insurance group has been a very consistent underwriting performer over many years. While it is still early in the year, it is comforting to see the workers' compensation and general liability lines registering much more acceptable claims ratios.

Looking ahead, we don't see material changes in the various marketplaces in which we participate. We believe premium growth above the single -- mid-single-digits remains achievable for the year. And as always, our focus is clearly on the achievement of favorable underwriting results over the term of the cycles. To do this, we remain prepared to sacrifice top line growth.

Now I'll turn the meeting over to Rande Yeager for a title group update.

Rande K. Yeager
Chief Executive Officer and President

All right. Thank you, Scott. As you can see, the title business posted significant improvement over 2014's first quarter. Operations produced about $16 million in pretax profits in the first quarter this year compared to 4.7% in 2014. We booked about $428 million in premiums and fees this year compared to $393 million in 2014. The profit increase was about 233%, and the premiums and fees rose at the same time about 8.7%. Our claims ratio declined as well from 6.1 to 5.6, as claim insurance continue to improve with the economy and housing, obviously, for us in particular. The expense ratio dropped from 94% to 92.1%. That's a good sign.

Closed orders in our direct operations were up over 28% in the first quarter. The commercial business, to which we've committed greater resources for several years now, continues to exceed our expectations. Our various information technology units, which provides services to our own operations, as well as other unaffiliated providers, are clearly enhancing their penetration of their respective markets. So all in all, we're very happy with this year's first 3 months' performance and what it pertains for the rest of the year. We currently estimate that Old Republic title's market share will most likely continue to hover around the 15% level when the final tallies come in for the year.

Generally speaking, the first quarter is the year's weakest. Most often, heavier refinance activity can affect mortgage lending activity during this period. Because interest rates dipped a bit in January, we have what has been referred to as a boomlet or a small increase in refinance activity early in the year. This drove up order counts to some extent and should provide a base for some additional revenue in the second quarter.

For the economy as a whole, there have been good job reports, offset by sluggish economic activity, low interest rates offset by tight mortgage credit, and there's continuing debate about Dodd-Frank legislation, federal reserve actions in terms of interest rates and the anticipated finalization of the new Consumer Financial Protection Bureau, as people probably know it, the CFPB rules that will be released in August. Mortgage Bankers Association has revised its 2015 forecast slightly upward from about 1.1 trillion to 1.2 trillion originations. And for our part, we agree that 2015 should show some moderate improvement over 2014 when the year is, again, tallied up

For as long as we have been in this industry, there have not been any periods when there wasn't a perception of an M&A crisis. It certainly didn't exist. And as always, we don't get too exercised by the possibility of change. Our managers simply prepare for it. And in this light, we remain optimistic about both the near term and the long term. We should be able to produce good results for these future periods, as long as housing and the economy, in general, prosper as we expect them to do.

And that will be my report on title. And with that good thought, I will turn the meeting back to Al Zucaro.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Let's see. I want to say a few words about our RFIG runoff segment. It's been fairly quiet since the midyear of 2014, and particularly when as we've once again reported or indicated in this morning's release, we finally closed the loop on our mortgage guaranty deferred claim obligations, and we did that by paying 100 cents on the dollar on all legitimate claims that have been settled. And I must say, I know we've said this before, we take a great deal of pride in having discharged those claims obligations honorably and to the great satisfaction of all stakeholders.

And since July of last year when we did make those final payments, the mortgage guaranty part of the runoff has progressed pretty much as we've expected. We're managing the business with a great deal of efficiency, and you can see that. In one of the tables you can see that, that efficiency is underscored by a very low expense ratio. And then when it comes to claim costs, again, as you can see, they do continue to decline in tandem with housing-related financial sector improvements in most parts of the nation. And as I'm sure you all read, housing prices keep inching up in most areas and all of that is good for the mortgage lending industry, for the title industry, and certainly, for the mortgage guaranty business.

We're still incurring some pretty stiff legal expenses in mortgage guaranty, and those are related to now a single remaining piece of litigation that we've had with a major banking institution since the Great Recession started. And in this -- we're still hopeful of resolving the dispute and to do so in a mutually acceptable manner. So we are looking forward to moving on to more productive objectives for this mortgage guaranty business, and to do so in the best interests of all the stakeholders there, including, most importantly, or at least just as importantly, our professional associates who've been steadfast in managing that business through the troubled times that has gone through.

Having said that about the mortgage guaranty business, something similar can be said about the consumer credit indemnity, or what we refer to as the CCI portion, of the RFIG runoff. There, again, premiums and claims are trending down, and they are doing so at a steady pace, and that's just as expected in the context of a declining book of business on the one hand, as well as the improving situation in housing, finance, and lending and people's ability to make payments on their obligations. Our remaining challenge in this business still is to rid ourselves of a couple of pieces of litigation. The major one of which, I might say, is with the same banking institution with which we have a dispute on the MI side of the businesses I mentioned a couple minutes ago.

So we think that this should also happen in the foreseeable future or certainly as soon as both sides come to reason together and quit the lawyer-driven posturing that always stands in the way of a handshake.

So leaving this litigation baggage aside, we think that the RFIG runoff can proceed on an even keel and can, in fact, throw off a modicum of profits, albeit on a declining scale as the policies in force both in MI and CCI fade away over the next several years.

So having said this, I think we're now at the point for Karl Mueller to take over and speak to some of the key financial matters, as we indicated before. So Karl?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. As shown in today's news release, Old Republic's financial condition reflects a continued focus on the strength and stability of the balance sheet. The cash and invested asset balance of roughly $11.5 billion increased slightly from amounts reported at the end of December.

As discussed in previous calls, the composition of the investment portfolio evolved throughout 2014 to reflect a greater allocation to high-quality dividend-paying common stocks. This shift was made in order to create greater diversification, and at the same time, to enhance the overall yield on the portfolio. As a result, the composition of the investment portfolio at year-end 2014 consisted of approximately 82% allocated to fixed maturity and short-term investments and 18% towards equity securities. I would say that these allocation percentages remained relatively unchanged at the end of the first quarter.

At March 31, the equity portfolio was comprised of approximately 13% invested in various index mutual funds, 66% in blue-chip stocks that have a long history of increasing dividend payments to their shareholders, and the remainder was committed to utility stocks.

Investment income rose by a little more than 10% in this year's first quarter to $91 million, up from $83 million in the first quarter of last year. This higher investment income is attributable to larger investment -- or invested asset balances, along with an increase in the yield on the portfolio in total.

The credit quality of fixed income portfolio remains unchanged at March quarter-end with an overall A rating and its average life remains just shy of 5 years.

Consolidated claim reserves were relatively flat at the end of March compared to the most recent year-end. For the quarter, consolidated claim costs have developed slightly favorable, while somewhat less so than last year's first quarter. As we noted in the release and as mentioned briefly by Scott in his earlier remarks, the general insurance group's prior year reserve development, however, was slightly deficient this quarter compared to a slight favorable development in the first quarter of 2014. I would just add that the prior year development did not have any significant impact on the composite underwriting ratio reported for either quarterly period.

We experienced favorable development in the RFIG prior year reserves in both periods, as we quantified on the bottom of Page 3 in the news release this morning. And finally, the title reserves developed pretty much in line with prior year and estimates which is typically the case with those reserves.

Moving on, shareholders' equity as of March 31 was $4 billion or $15.48 per share, which is an increase of $0.33 per share or 2.2% for the quarter. Together with the quarter's $0.185 per share dividend, the total book return for the quarter was 3.4%.

And finally, the capitalization ratios that are shown on the top of Page 6 reflect the small reduction in the debt-to-capital ratio, and that results predominantly from growth in the equity account.

So that covers the highlights of our current financial condition. And at this point, I'll turn it back to Al for a few closing remarks before we head over to Q&A.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So to conclude, again, we think we've got a very good start on the year. In general insurance, as Scott mentioned before, premium growth will, more likely than not, be a little less than last year's; but nonetheless, the underwriting and investment income parts of the business should continue to trend higher as we have seen in the first quarter. I think that a great deal of the underwriting improvement in general insurance has got to be driven by the much stronger claim reserve base that we closed 2014 with.

I think that Rande gave a very good explanation of the basis for our optimism in the title business. And we've also pointed out that absent and unexpectedly adverse nonrecurring resolution of litigation in the RFIG runoff business that, that also should produce positive results in, again, in the context of its -- of a runoff operation.

So when you wrap all of this together, we are an optimistic bunch here, and we're confident that we should be posting a good set of operating numbers, as this year evolves and as it concludes in December.
So with -- let's see, with this thought in mind now on the table, as Karl just mentioned, we'll open up the session to any questions that you may have. So let's get going with that.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just to start, Al, just to make sure I understand clearly your comments around litigation. Does this suggest that you'd like to settle both the suits on the RFIG and CCI side?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I'm sorry, the question was which one do we want to settle first?

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I'm sorry. So in many cases on litigation you tend to have the typical response of pursuing that aggressively. And of course, like, generally the response is companies tend to believe that they're not frankly in the wrong, and therefore, there is no adverse impact to them and that, hopefully, they'll be successful in the litigation. In this case, it seem like it was more that your conversation indicated that reaching a mutual agreement in settling these suits would be in both companies' interest. And so I just wanted to see if it was -- are you saying you'll to litigate these, or you do want to settle?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Oh well, it all depends on how reasonable we can all be, right? If people are unreasonable, if we cannot come to terms, or as President Johnson used to say, if we cannot reason together, then we're not going to settle those things. We're just going to keep pounding away and both sides will be spending lots of money on the lawyers and make them happy. But we think that this thing has been lingering for such a long time now, and the particular institution that we're -- that we have the disputes with is one which, as you can read in the papers, has been assiduously resolving its litigation with the U.S. Treasury and what have you, so we think that perhaps, it is going to have an interest in coming to the table and attempt to resolve this thing on mutually acceptable terms, as I say.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

And then coming out of the North Carolina hearing, I think the bank that we're all talking about that spoke during the interview period. I came away, I would say, a little unsure of what Old Republic's potential reserves for any litigation that would be in. So the question here is, if you were to settle, does Old Republic already have some reserves set aside for any sort of estimated liability there?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, as you know, our reserves are our reserves, Vincent. And you can look at the balance sheet and you can see the totality of our reserves, which represents the totality of our exposure for each and all of our businesses.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, got it. And then shifting over perhaps to a more productive discussion here. So on workers' comp, I'm very glad to see that the adverse reserve there is not a big deal this quarter and the accident year pick looks to come down pretty nicely. And so, generally, I'm -- pay close attention to when you see kind of big shifts from last quarter to this quarter on workers' comp trend. And So I just kind of wanted to hone in on any type of -- anything on the pay side or anything on the loss cost side specifically that kind of underpins those changes.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, I think it's been pretty quiet on the waterfront, as the movie title you read. Things are very stable. As Scott mentioned before, we're getting good pricing and the small, slight adverse development we have this quarter is not giving us any indigestion in terms of its portending to point to a need to do any significant amount of reserve strengthening. So we feel -- right now, we feel very good. We felt pretty good as of year-end 2014 that we had done everything we needed to do to address our perception of any weakness that wasn't in the reserves, not just comp, but everything else for that matter. That's the best answer I can give to your question right now, Vincent.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Sounds good. And then just on commercial auto, again, more of a clarification question, but my takeaway from the prepared comments was that some of the loss ratio left on commercial auto was something that was contained in the quarter and it's not a broader trend that you would perceive being an issue throughout '15. Is that basically the takeaway there?

R. Scott Rager
President and Chief Operating Officer

I think that's a fair assumption.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

I mean, anything discrete that sort of pressured results? Or just kind of looking to see if there's anything in particular there that stands out.

R. Scott Rager
President and Chief Operating Officer

You mean as to the commercial auto?

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Yes, please.

R. Scott Rager
President and Chief Operating Officer

Yes, I think that it was actually when you look across the line, the entire group, it was 4 or 5 entities. They just seem to have poor commercial auto experience. And some were driven by frequency and some were driven by less frequency and more severity, and it was just -- that's what it appeared to be for the quarter. So as I indicated, I don't think there's any one thing that we could do systemwide or by entity that would be called for appropriately at this point in time. So...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

So just fortuitous. I guess that's the best way to describe what happened to us in that line, in those claims this past quarter.

R. Scott Rager
President and Chief Operating Officer

Right, right. I mean, it's fortuitous business. That's our take on it at this point in time based on all the information we have. So...

Operator

From JMP Securities, we have Christine Worley.

Christine Amanda Worley
JMP Securities LLC, Research Division

One sort of clean-up question. I know in the general insurance group, you said that rates are running in the mid-single-digits. Looking at the group overall, how is that relative to loss cost trends?

R. Scott Rager
President and Chief Operating Officer

Reasonable. Yes, reasonable.

Christine Amanda Worley
JMP Securities LLC, Research Division

I mean, as to [indiscernible] keeping up with loss cost trends, there's no cushion on either side, really.

R. Scott Rager
President and Chief Operating Officer

Well, no, I wouldn't say that. I would think that -- rates, especially with respect to workers' compensation, are not only specific to the operating -- specialty operating unit that serves a given marketplace, Christine, but they're also specific to state and the particular occupations that might be served by that operating unit. And I think they're performing well, Christine. If those -- we've had good experience and things are rolling along well, you might see flat to single-digit increases. And if they're not performing as well, you would be more inclined to see mid-single digits to high-single digits. So it really depends on the marketplace being served and the product line that's under discussion. Does that help at all?

Christine Amanda Worley
JMP Securities LLC, Research Division

Yes -- no, it does.

Operator

And we'll take our next question from Stephen Mead with Anchor Capital.

Stephen Mead
Anchor Capital Advisors, LLC

Going back to the workers' comp, and looking at sort of the...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Excuse me, Steve, can you speak a little loud -- more loudly, please?

Stephen Mead
Anchor Capital Advisors, LLC

Yes, can you hear me now?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Oh yes, fantastic.

Unknown Executive

Much better.

Stephen Mead
Anchor Capital Advisors, LLC

Just looking at the history of workers' comp and the composition of the business today, in terms of the underwriting ratio or the -- just the improvement in the business, where is a reasonable level to get back to in terms of as you look at it from a couple of years kind of standpoint in terms of how profitable that business can be for you.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, I think you can look at the -- I don't know if you have access to, Steve, to the statistical exhibit that we put, that Scott referred to earlier in this conversation. But when you look at that statistical exhibit specifically...

Stephen Mead
Anchor Capital Advisors, LLC

On Page 4?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Exactly. If you look at the far right, for the past several years, we've been putting a 10-year average number for these 3 key lines, as well as the individual lines, and you can see that the comp is at the 77.6%. We think, given the cost, the production cost structure of comp sitting by itself, which is not necessarily the best way to look at it because as you know, comp is typically sold in tandem with the automobile liability and the general liability. But if you look at it on its own merits and you look at the cost structure, we think that if you can achieve, over time, a 74%, 75% loss ratio in comp, you're in good shape. And that's what we aim to do, again, looking at that line by itself. Again, bearing in mind, however, that we're not just writing comp in your typical account, we're writing a combination of the 3 lines. And when you look at that, again, for the last 10 years, you see that the overall ratio for those 3 lines is 75% from a claim ratio standpoint. But again, to a large degree, that 10-year average is also colored significantly by the bad experience we've had since 2011, '12, '13. I think those were particularly bad years for us, and I think therefore, longer term-wise, the overall ratio should be in that 72%, 73% for the 3 combined lines. So long term, 75% for comp we think is very good. Long term for the 3 lines, combined, 72%, 73% max ratio is very acceptable. Particularly when, as could happen in the foreseeable future, you've got some investment income kicking in and helping with the discounted aspects of those claim reserves.

Stephen Mead
Anchor Capital Advisors, LLC

Okay. And then as you look at the capital base of the company now, and as you start to, in a sense, retain earnings, relative to some of the organic growth of your businesses, where do you sort of see yourself today in terms of capital relative to the different business segments? And if it sort of stays at the current sort of steady-state, when do you start to sort of in a sense generate, in a sense, excess capital relative to the underlying business itself? Do you follow my question?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, I do. Long history with us, we'll pay on an average, on a moving average basis, maybe 35%, 40% of the earnings in terms of dividends, which implies that we'll keep 55%, 60% of the earnings and add it to the capital account. We're also focused on the effect on the capital account of our equity holdings, common stock holdings, which as you know, tend to create some volatility in the capital accounts, so that leads us to keep a little more capital, a little more cushion to absorb that down -- that potential downdraft in common equity evaluations. And as you know, those -- if those impact your capital significantly, it does impact your ability to do business. And then the remaining portion of what we add on to the capital on a regular basis is -- takes into account our expectations as to how quickly this business can grow. And as a minimum, we assume a 7% or 8% average growth rate of the top line, and therefore, what it contributes to the reserve levels. Again, you've heard us say this, our main focus in the general insurance business, which is oriented to a longtail -- so-called longtail lines of insurance, is on the ratio of claim reserves to capital and surplus. And right now, that ratio is at the midpoint, right, Karl? Between the bottom and the high side. So I would say that the long-winded answer to your question, Steve, is that we're going to need a couple of years before we get to the point where we may feel we have more than enough capital in that business. Right now, we are still going to maintain a capital-building posture in general insurance, for all the reasons I've just given.

Operator

And we'll take a follow-up question from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Just one quick one. Al, just to your earlier comments, I think it went something along the lines of you're getting close to being able to seek productive objectives in RFIG. And I'm just curious if anything has changed on the strategic front or if there is any implication in your comments of other options for RFIG margin?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, no, no. We need to resolve these issues, see them through, and then we'll take another look. Right now, as we -- right now, as we've said repeatedly, Vincent, we're perfectly happy to stay with that runoff to the end when you know, substantially all of the business is off the books. We think we've got good staffing in place, good infrastructure, and certainly a commitment on our part to see things through if we don't do anything with that operation.

Operator

And we'll take our next question from Adam Leibhoff with Loomis Sayles.

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

It's Adam Leibhoff with Loomis Sayles. You'll have to forgive me, I'm relatively new to your business. But I've heard in the past, you guys refer to the concept of risk transfer versus risk management in the workers' comp business. So I'm wondering whether you could help me understand the difference, number one. Number two, to the extent you can help me understand how the general insurance business, I guess, the workers' comp business is split between risk transfer and risk management, and the relative profitability of the 2 types of contracts -- or types of approaches, that would be great.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, the difference between risk transfer and risk management, to start with, is that under risk transfer, we're at risk from ground up, all the way. And in compensation, as you know, in workers' compensation, by law, the policies we issue have got unlimited liability, whether it's a large account or a small account. In risk management, the approach through various mechanics -- those mechanics including, for example, the ownership of a so-called captive insurance company by an assured, typically, an assured with a substantial balance sheet and an appetite for risk. So such unassured, for example, in comp, to use it as an example, might retain the first million dollars of each and every workers' comp claim, and then we come in and fundamentally are providing reinsurance protection over and above that, in addition to providing the various levels of services. Now a captive insurance, again, is one -- only one of the mechanisms that we use. We can use of retrospective premium adjustments to attenuate the cost; and by that I mean that we may offer a dollar rate to an account, which is predicated on having an ultimate loss ratio of 60%, let's say, on the book of business. And if the loss ratio turns out to be 55% down the road, we'll kick in -- we'll kick back some of the premium. If the loss ratio is higher than the 60%, we'll charge the account an additional premium. In both cases, there's a high and a low or a top and a bottom to the amount of the adjustment that can be secured. So typically, the risk management business, or sometimes it's referred to as alternative market approaches, involves those kinds of participations by an assured in the underlying risk. So acting, as you can, I'm sure, detect, acting, more or less, as a reinsurer puts us in a position where we don't have to deal as much with the frequency of claims as much as we have to do with the severity of claims, and that's what the reinsurance companies do, they -- through the reinsurance mechanism, they attenuate severity of claims. We do risk management business or alternative market approaches for basically the 3 lines of insurance: workers' compensation, general liability and automobile liability, with workers' comp being a significantly larger piece of the equation. As to how much of our total business is -- falls in the traditional ground-up risk transfer part of the business versus the risk management or alternative portion, it varies. But over time, it's been about a 55% to 45% configuration, with 55% being risk management, 45% being risk transfer. Again on comp, you have that, it's a little more accentuated. In AL, for example, automobile liability, it may be as low as 30% being in risk management and 70% in alternative -- in risk transfer, okay? That addressed your question?

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

Yes, and I guess the other thing is, is there a way to determine which of those businesses is more profitable? I would imagine risk transfer, but I'm certainly no expert.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No. I mean, to us, it's one book of business, because again, in risk management, we are at risk as a reinsurer. It's just a matter of the quality of the risk, right? Whether you're downstairs or whether you're upstairs. And that's why, see, in the risk management portion, we act more like a reinsurance company than a traditional primary company with a ground-up exposure. But to us, it's all risk, and it's just a matter of how much you charge for our perception of that risk.

Operator

That concludes today's question-and-answer session at this time. I would turn the conference over back to our management team for any additional and closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, we don't have closing remarks. We -- as always, we appreciate the back and forth of the questions asked, and we sure as hell appreciate your being on this call and participating in it on a regular basis, as you all do. Having said that, we'll bid you a good afternoon or good morning or good evening wherever you are. You all take care now. Look forward to visiting with you again next quarter.

Unknown Executive

Thank you.

Operator
Ladies and gentlemen, that does conclude today's presentation. We appreciate everyone's participation.