S&P Global
Market Intelligence

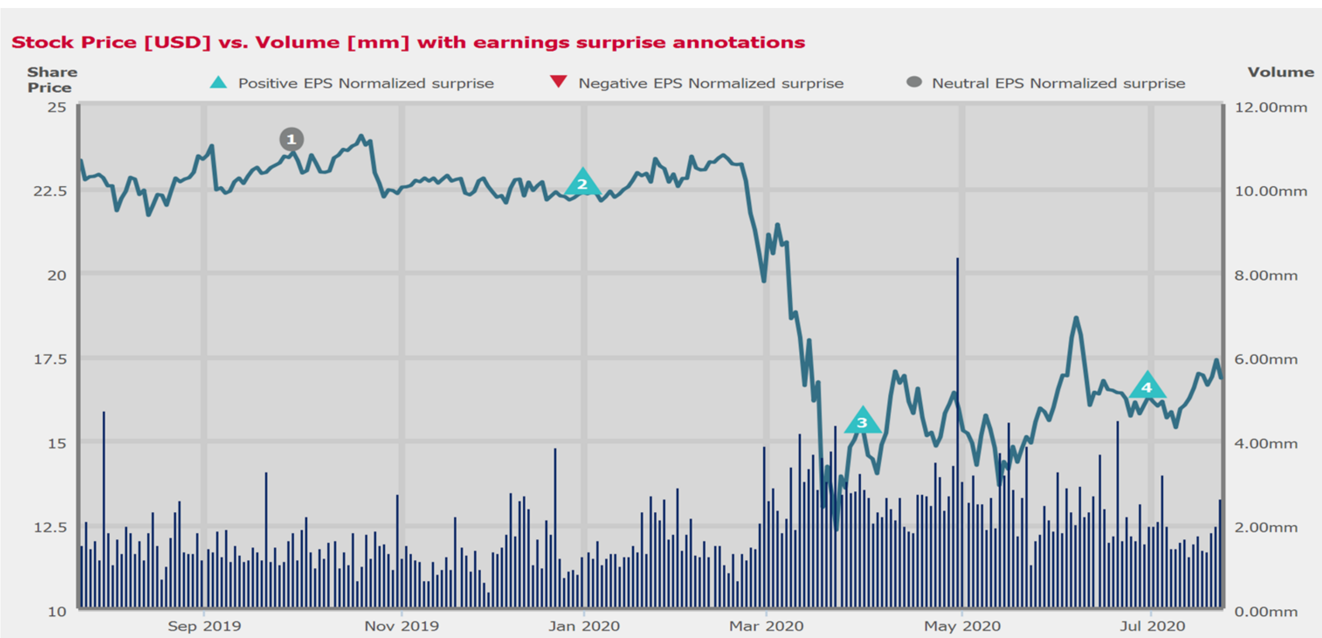
Old Republic International Corporation
NYSE:ORI
FQ2 2020 Earnings Call Transcripts

Thursday, July 23, 2020 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.40	0.42	2.44	0.42	1.70	1.60
Revenue (mm)	1949.00	1970.60	1.11	-	5872.00	6220.00

Currency: USD
Consensus as of Jul-23-2020 7:10 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.51	0.51	1 0.00 %
FQ4 2019	0.42	0.47	2 9.30 %
FQ1 2020	0.31	0.47	3 51.61 %
FQ2 2020	0.40	0.42	4 2.44 %

Table of Contents

Call Participants

EXECUTIVES

Carolyn Jean Monroe
President

Craig Richard Smiddy
President, CEO & Director

Karl William Mueller
Senior VP & CFO

ANALYSTS

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

Matthew John Carletti
JMP Securities LLC, Research Division

ATTENDEES

Marilynn Meek;MWW Group;Vice President

Presentation

Operator

Good day, and welcome to the Old Republic International's Second Quarter 2020 Earnings Conference Call. I'd like to remind that everyone -- that this conference is being recorded.

And I would now like to turn the conference over to Marilynn Meek with MWW Group. Please go ahead.

Marilynn Meek;MWW Group;Vice President

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss second quarter 2020 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 July 23, 2020. 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 would like to turn the call over to Craig Smiddy. Please go ahead, sir.

Craig Richard Smiddy
President, CEO & Director

Thank you, Marilynn. Good afternoon, everyone, and welcome to Old Republic's Second Quarter 2020 Earnings Conference Call. With me today, we have Karl Mueller, ORI's CFO; and Carolyn Monroe, the President of our Title Insurance Group.

Let us first reiterate our continued best wishes to all of you, your families, friends, coworkers as we all face the challenges related to the COVID-19 pandemic. As we mentioned in the release, while some of our associates have begun returning to our offices, the majority of Old Republic's more than 9,000 associates continue to work remotely, ensuring that our services are delivered uninterrupted to our customers, agents and brokers. And all in, our remote work efforts have gone extremely well.

Given the challenges emanating from COVID-19, we're pleased with the results we posted for this quarter, particularly the very strong Title Insurance results and the recovery in shareholders' equity since the end of the first quarter. As we noted, could be the case in our first quarter release, the effects of COVID-19 and the associated governmental responses have indeed had a negative effect on the top line in the General Insurance group in the second quarter. However, our Title Insurance group set yet another production record, again, demonstrating that our strategic diversification between General Insurance and Title Insurance works very well.

So at this point, I'll turn the discussion over to Karl Mueller to discuss our overall consolidated financial results, and also our small RFIG run-off business. And then he'll turn things back to me to discuss the General Insurance segment, followed by Carolyn Monroe, who will discuss the Title Insurance segment. And after that, I'll make a few closing comments before we open up the discussion to Q&A.

So with that, Karl, please take it away.

Karl William Mueller
Senior VP & CFO

Very good. Thank you, Craig, and good afternoon, everyone. Earlier today, we announced second quarter net income, excluding all investment gains and losses of $124 million or $0.42 per share. And that's down approximately 7% from last year. For the first 6 months of 2020, EPS was $0.89, up nearly 4%. The consolidated net premiums and fees earned grew by 1.5 percentage points during the second quarter and 5.7% for the first half of this year.

Our Title Insurance group, as Craig said, continues to set the pace with an increase of almost 10% for the quarter and 16% year-to-date. General Insurance recorded a relatively modest decline of 3.8% and 0.6% for the quarter and the first 6 months of the year as the pandemic further impacted economic activity here in the U.S.

Net premiums earned in our mortgage run-off business continued to decrease as expected. And really, they're no longer a significant contributor to the consolidated total. Net investment income dropped by 3.8% for the quarter and 1% year-to-date. And that's mostly caused by lower yields, which offset the generally higher invested asset balances.

Turning to underwriting results. This quarter's consolidated combined ratio ticked upward by less than 1 percentage point to 96% from 95.2% last year. For this year's first 6 months, the combined ratio was 95.4%, and that was largely unchanged from the same period a year ago. Consistent with recent trends, the claim ratios moved lower and the expense ratio higher, and that's due mainly to a shift in the mix of business towards the Title business, making up a greater percentage of total. And as we've pointed out in the past, Title carries lower loss and higher expense ratio, and that's influencing the consolidated total.

Claim reserves on a consolidated basis dropped -- or developed favorably for the current quarter and year-to-date periods, reducing the reported claim ratios by 0.4 and 0.6 percentage points. Prior year development for the comparable 2019 periods was again favorable by 0.2 and 0.9 percentage points. At June 30, the allocation of the investment portfolio remained relatively consistent. Roughly 75% is invested in bonds and short-term investments with the remaining 25% directed towards equity securities. Our primary investment objective is to create a steady and growing stream of interest and dividend income. And in that light, we do not anticipate any material changes to our investment strategy.

Turning to -- during this year's first quarter, disruption to the financial markets resulted in a 24% or $963 million decline in the value of our equity portfolio. During the second quarter, the financial markets improved considerably, resulting in a $354 million recovery in the valuation of our equity portfolio. And I would also add that as of yesterday's close, the portfolio had rebounded by an additional $126 million on top of $354 million.

Old Republic's book value per share increased from $17.29 at March 31 to $19.68 at the end of June driven both by operating income and increases in the fair value of the investment portfolio. Book value is now up slightly for the year after consideration of the regular cash dividends paid year-to-date, which now generate nearly a 5% yield. In fact, 2020 marks the 79th year of uninterrupted regular cash dividends and the 39th consecutive year of increasing dividends.

So now let me turn briefly and discuss our run-off mortgage insurance business. As previously noted, we continue to monitor the impact of unemployment levels along with the effects of government loan forbearance programs on reported delinquencies. At the end of the first quarter, we cautioned that these factors, along with the rate at which the U.S. economy recovers, could affect future claims experience and potentially slow the return of capital from the run-off business. During the second quarter, we did actually experience an increase in reported delinquencies. A significant portion of these really reported almost 41% of total delinquencies outstanding at June.

Our loans in forbearance. In our experience with prior forbearance programs suggest that these loans will have significantly lower ultimate claim rates. Therefore, they have been segregated and reserved for separately. We have also preemptively increased the frequency factors on early stage delinquencies for normal loan defaults. And what I mean by that are loans that are not in forbearance. And we've done so in consideration of the current economic environment. So in combination, these additional reserves resulted in the $5 million pretax operating loss and escalated claim ratios that were reported.

So overall, we believe this was a very good quarter, and there are a number of positives to build upon for the future of Old Republic.

So as Craig said in the opening remarks, I will now turn things back to him to talk about General Insurance.

Craig Richard Smiddy
President, CEO & Director

Okay. So as the release indicates, compared to the second quarter, General Insurance saw quarter-over-quarter operating revenues decreased by 3.6%, and quarter-over-quarter, pretax operating income decreased by 1.8%. For the General Insurance group, quarter-over-quarter combined ratio, we saw that it rose slightly to 98.4% from 98.1%, while the expense ratio remained very steady.

As shown in the financial supplement, net premiums earned in commercial auto decreased by 2.5% quarter-over-quarter. Attributable to a decline in the exposure base resulting from the economic downturn, along with tighter risk selection criteria offset by the positive effect of rate increases that have continued at a pace in the percentages in the lower teens. Claim frequency has decreased significantly for commercial auto, again, attributable to the economic downturn. But this was offset by severity that continued to increase, we believe that comes from higher speeds as a result of less congestion on the highways and also continued effects of social inflation on settlements.

Continuing with the financial supplement, workers' compensation experienced 14.3% decrease in net premiums earned quarter-over-quarter. Here too, attributable to a decline in exposure base resulting from the economic downturn. And on this line, that's also further exacerbated by the effect of rate decreases that continued in the low single digits for workers' compensation. Aside from COVID-19 related claims, claim frequency here, too, decreased, again, attributable to government and businesses and their responses to the COVID-19 pandemic and, of course, the impact on the overall economy.

Turning to the line of coverage claim ratios in the financial supplement. Our second quarter commercial auto claim ratio increased to 83.4% compared with 79.6% in the same period of 2019. So our work on this line of coverage continues with necessary rate increases and stricter risk selection criteria to bring that claim ratio back in line with our target in the low 70s.

Turning to the workers' compensation claim ratio. The second quarter came in at 65.7% compared to 69.3% in the second quarter of 2019. As we discussed following the first quarter, it's important to remember that more than 90% of our COVID-19 workers' compensation claims emanate from loss-sensitive business such as large deductibles. And furthermore, greater than 90% of the COVID-19 claims that we see in workers' compensation are mild in nature with very low claim payments. And ultimately, less than 1% of those workers' comp claims are severe, and less than 1% result in a fatality. So therefore, based on our current analysis, we are confident in our current accident year loss ratio selection for workers' compensation. And we're confident that they're adequate, especially taking into consideration the loss-sensitive nature of our business, the reduction in frequency we spoke about and the very high proportion of mild cases for COVID-19 claims.

For commercial auto, workers' comp, general liability combined, given that we usually provide these coverages together to our customers, we like to look at it that way as well. And quarter-over-quarter, that claim ratio came in at 74.6% compared to 75.3% last year.

Still looking at the financial supplement. The remainder of our other line of coverage claim ratios are generally within our targets, and we feel very good about those.

So for General Insurance, the second half of 2020 will remain challenging from a top line perspective, no doubt. But we will continue to seek the appropriate price for our products and continue with our long-term focus.

So on that note, I'll turn the discussion over to Carolyn for her comments on Title insurance. Carolyn along with her team continue to do a remarkable job, keeping our Title operations executing at an extremely high level. So Carolyn, please take it from here.

Carolyn Jean Monroe
President

Thank you, Craig. As the trials of COVID-19 continued in the second quarter, our Title employees continued to face the challenges head on, effectively serving the needs of agents and customers. We have transitioned a portion of our workforce back to their office, but we are maintaining our nationwide work-from-home capabilities. Our high standard of service commitment and execution remain regardless of the location of our employees.

In our first quarter earnings call, we reported that our owned digital closing provider, Pavaso, had adjusted its platform to allow our agents and offices to be able to offer electronic signing products that were key to facilitating real estate transactions in the manner predicated in many of the emergency orders implemented by state government. Prior to the COVID-19 pandemic, the real estate industry had not committed to adopting the digital closing models. Based on need and then following regulations, there has been a dramatic increase in this activity. From a national perspective, these electronic closings are relatively small number of the overall transactions. However, as a result of the emerging interest to continue these methodologies, we have accelerated the development and rollout of our digital close tools. We also continue to evaluate multiple products that will augment automation in the Title production segment.

As reported this morning, the Title division's second quarter and year-to-date results remained strong. All-time second quarter and midyear highs were set for both underwriting revenue and operation profit. For the second quarter, total premium and fee revenue was up 9.9% and up 16.4% year-to-date. Our pretax operating income of $65.4 million for the quarter compared to $60.2 million in last year's second quarter, with an increase of $5.2 million or 8.6%.

Year-to-date, pretax operating of $108.7 million compared to $80.8 million in the prior year-to-date period, an increase of $27.9 million or 34.6%. Year-to-date 2020, our composite ratio of 93.1% compares favorably to the 94.3% reported for the comparable 2019 period. Despite all the unknowns surrounding COVID-19, we remain cautiously optimistic going into the third quarter with a robust order count in both purchase and refinance transactions, a strong real estate market with 30-year mortgage rates remain historically low, around 3% and expectations for these favorable rates to continue for the foreseeable future.

While we have adjusted to doing business during COVID-19, we are still mindful of the challenges ahead for our organization and our nation. My appreciation goes out to all our employees and Title agents as they remain dedicated and positive as we all deal with the daily challenges of the pandemic. Our accomplishments are achieved with the commitment of our employees and the support of our agents.

As with past challenges, we rely on the same guiding principles of integrity, managing for the long run, financial strength, protection of our policyholders and the well-being of our employees and customers that have served us well over the last 100-plus years.

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

Craig Richard Smiddy
President, CEO & Director

Okay. Carolyn, thank you. So again, our second quarter operating results indicate that our businesses continue to perform and our strategic diversification between General Insurance and Title Insurance works well. We will continue to focus on underwriting excellence, and we'll continue to ensure that our capital position remains very strong as we weather the current economic disruptions.
So with that, we'll conclude our prepared remarks and open up the discussion to Q&A.

Question and Answer

Operator

[Operator Instructions] We take our first question from Greg Peters from Raymond James.

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

I wanted to start with a question or 2 around the General Insurance business. So in your press release, you spoke -- and I know you like to look at things, perhaps, on a 6-month basis opposed to a quarterly basis, but the decline in net premium written in the second quarter on a year-over-year basis of almost 10% is pretty dramatic. And then we go to your supplement and you give us earned premium by segment, by line of business. I was wondering if you could help bridge the gap, Craig, and tell us where the weakness in written is coming from, which lines? And is it just a onetime payroll adjustment, say, hypothetically, through workers' comp? Or is this something that we should anticipate through the balance of the year?

Craig Richard Smiddy
President, CEO & Director

Sure, Greg. Right. So the net written premiums by line, they're going to be very proportionate to what you're seeing happen on the by line net premiums earned. So it's just an order of magnitude. So if you see a decline in net premiums earned, line by line, you can extrapolate from there and assume that what you're seeing there is proportionate to the overall net premiums written. We can take a closer look at that in future quarters and perhaps include the net written by line.

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

Okay. And then I think -- I appreciate that. And I understand the earned premium is a lagged number. But were there some onetime issues that hit the second quarter, like the payroll audit that customers ask you to consider? Or is that 9% sort of what we're dealing with for the balance of the year? And what's striking is that it's down that much yet from all reports, you're probably one of the best pricing environments you've had in the last 15-plus years.

Craig Richard Smiddy
President, CEO & Director

Well as I indicated in my earlier remarks, it's down because of a significant impact from the COVID-19 related closures and the responses that governments and businesses have taken and the overall impact on the economy. So future quarters are going to be dependent upon how all of that plays out. And I don't think any of us are in a position to predict how things will play out in the third and fourth quarter. We all watch enough news these days to know that it seems things change daily. So it is -- there isn't any 1 specific event in a certain book of business or anything that I would point you to. It's a decline in workers' compensation, for sure. As I think, frankly, the results were pretty much what we, I think, indicated last quarter. And that is that given that workers' compensation premiums are a direct function of payrolls and to the extent that payrolls are down, we said last quarter that the impact on workers' compensation premium in particular, exacerbated by the fact that there is still, you say, best rating environment. But workers' compensation is still experiencing rate decreases. So you couple together, the reduced payrolls and the rate decreases. And I would say that we were not surprised at what we're seeing on comp. And there's an expectation that with economic recovery, that number will recover as well.

As I mentioned earlier, auto is a different story. And I think there, too, it's playing out as we discussed, we thought it would after the end of the first quarter and that is at least with auto, you have the offsetting benefit of robust rate increases. So even though we're seeing volume decrease, the number of vehicles decrease or be furloughed, there is some benefit from the robust rate increases that we're getting.

The only other thing that I'll just add on to conclude, Greg, is that I think you know -- and you may recall, a lot of the states had introduced regulation whereby they either requested or required insurers to accelerate credit to customers based on exposure reductions. So said a different way, rather than waiting until audit time at the end of a policy, they asked to consider exposure reductions early. And we did that as required, and where requested. And we've kept very close tabs on that. In many states, we have to report back to the state on what we've done. So approximately $30 million of premium was credited because of those exposure reductions. So that's the only thing that, I guess, out of the normal course of business where that would have come later, it was accelerated into the second quarter because of those regulations and requests.

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

I'll pivot. One -- just one question on Title and then 1 on the run-off. On Title, Carolyn, it sure seems like the pipeline even as we closed out the quarter -- the second quarter, it still seems like you have a pretty strong pipeline, which is surprising in the context of everything that's going on. Can you give us your view of how the order book looks and what you're thinking for the balance of the year?

Carolyn Jean Monroe
President

Well thank you, Greg. July has been very strong for us, and we'll close the month out with really strong orders, in both refi and resale. And all indications are right now that this will continue through the third quarter. There was a little bit of a late spring that has just pushed everything and could carry us actually all the way through the end of the year if things continue the way they are. We're very optimistic.

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

It certainly [seems] things are robust.

Carolyn Jean Monroe
President

Right.

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

Yes. It certainly [seems] things are robust. Yes. The last question, just on the run-off business and your comments, Carl, about the 41% for closure assumption. How do we apply those type of assumptions when we're looking at your -- just your net risk in-force? Because that doesn't seem to be shrinking as fast, perhaps, as your top line. So should we think about a percentage of your risk in-force being in this foreclosure category? And can you give us some color on that?

Craig Richard Smiddy
President, CEO & Director

Well when you look at the financial supplement and the risk in-force numbers that we report. I'm just trying to clip here, as I'm speaking. And I believe it's Page 6 of the supplement. The risk in-force is running off about 25% per year, and that's continued into 2020 with about 5.6%, 5.7% running off each quarterly period. The revenues are continuing to decline as we've projected. I would say the right on -- in line with what we expected them to be. It's the claim costs that are starting to deviate from the projections that we had prepared a while back, and that's largely attributable to what's happening with unemployment and the surge in reported delinquencies. But as we've disclosed in the supplement, the delinquency count increased dramatically during the third quarter. And if you look on Page 8 of the supplement, you can see that it jumped by about 2,400 loans from [60 to 80] up to 8,700. And of that net increase, newly reported net of cures, the vast majority of that increase was attributable to loans that are part of a forbearance program. So what I was attempting to communicate earlier is that we have experience with these types of programs. And the ultimate loss costs are significantly better than the normal non-forbearance loans. So we've set these aside, reserve for them separately and increase reserves accordingly. And by the same token, we have looked at development trends. And while the trends themselves in the early stage, delinquencies wouldn't suggest having to take any dramatic reserve actions. We, in fact, used our judgment to try and get ahead of what we think might happen with lost costs and increase the frequency factors this quarter as opposed to waiting to see it manifest itself in the underlying development data. So those things in combination is what drove the underwriting loss and operating loss for the quarter. But the premium run-off is pretty much in line with expectations.

Operator

[Operator Instructions] We'll now take our next question from Matt Carletti from JPM Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

It's Matt Carletti with JMP. Just first one, I just want to follow up on one of Greg's questions, and I got one other one. On that follow-up, Craig, you mentioned, I think it was about kind of $30 million-ish of -- for like of a better term, kind of exposure change-related premiums. And I just wanted to clarify there. Is that -- does that the actual kind of exposure in the quarter that actually took place as well as, call it, midterm adjustments for future exposure? And if it is, can you even roughly kind of break that out? I'm just trying to get a feel for what kind of the 3-month exposure was, whether it's actual payrolls or actual kind of miles driven or receipts or whatever it is versus how much of that might have been something likely to come in a future quarter that got fast forward into this quarter because of the midterm adjustment.

Craig Richard Smiddy
President, CEO & Director

Right. Right. So if I fully understand your question, the premium, the $30 million figure that we talked about, comes from the reduction in exposure, as you described. It's against written premium. So that written premium would go out over a 1-year period. So to the extent that the majority of policies are 1 year, we would be adjusting premiums that would span over the course of that year. So for some policies, that credit may have come in the first quarter the policy was written. Whereas for other policies, perhaps they were written in 2019 and, therefore, the credit is for a shorter period of time. So it's -- okay?

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. No. That's helpful. I did realize there's a written number as opposed to earned numbers. So that helps.

Craig Richard Smiddy
President, CEO & Director

Yes. That's a written number.

Matthew John Carletti
JMP Securities LLC, Research Division

Perfect. And then the other question I had, just I was hoping you could expand a little on what you're seeing in the market in terms of pricing. You -- maybe just in the 3 major General Insurance markets, you mentioned kind of low single-digit rate decline still in workers' comp. That said, I think one of your peers called the bottom of the market this morning on their call. So I'm curious what you're seeing there? Or if you think we're kind of nearing an inflection point? And then any comments you can provide on just what you're seeing in commercial auto as well as GL.

Craig Richard Smiddy
President, CEO & Director

Sure. Sure. I'd be happy to. So yes, let me first start with comp. As you say, I had indicated low single digits in the way of decreases. And as we've said in prior quarters and for several years now, we're not -- we haven't been terribly concerned with those kind of decreases because our own data combined with Bureau data, whether it's NCCI or the individual state bureaus, all of it is very consistent in reflecting a decrease in frequency. And the decline -- those small declines in workers' compensation rates that we're giving are more than offset by the declines in frequency.

Now of course, this quarter, frequency is way down. So it's best to look at frequency, excluding the impacts of COVID-19. And if you look at our data, and if you look at industry data, again, excluding the impacts that COVID-19 has had on the workforce and payrolls, the frequency is still coming down as an industry. So I would not be one to say that we would expect a bottoming. And it hasn't been, as we said, unmerited in the amount of rate that we've given up, has been more than offset by frequency. So it seems to us that it's justified for comp.

Moving to auto. I think I mentioned in my comments that we were seeing rate increases still in the low teens. And as I mentioned in my comments, we think those are necessary. Sure, there's a temporary reduction in frequency. But severity is still driving the need for rate. So on comp, you have a tale of 2 cities here. On comp you have frequency declines that are justifying some reduction in rate. On auto, you have severity that continues, that justifies the need for the robust rate increases that we're getting. We're just commenting on other -- a couple of other particular lines that we write that are certainly noteworthy in the way of rates. Aviation is still getting very robust rate increases in the neighborhood of 25%. And D&O, E&O, here, too extremely robust rate increases. We think they're necessary and same goes for aviation. But in D&O, E&O, the rate increases we're getting are in the neighborhood of 50%.

So -- and then you asked about GL, specifically. GL, because there is some knock-on effect similar to the issues affecting auto, rate is needed there. And right now, even though it's a smaller portion of our portfolio for general liability, we're getting rate increases in the mid- to high single digits.

Operator

We'd like to take our next question from Greg Peters from Raymond James.

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

Great. I thought I'd chime up with a follow-up or 2. Craig, I wanted to go back to Page 4 of your financial supplement. And specifically, I wanted to -- and I know it's a smaller line of business for you, but I wanted to give you a moment to talk to us about the other coverages category. This is a line that includes the home and the auto warranty, the aviation and travel accident coverages. And I was wondering if you could give us a sense of what's going on, on price in that business. And then if you look at the claim ratios that you reported in the second quarter, it was up to 65.1% from 57.7% a year ago. If it's auto and home warranty, I feel like everyone is at home, I'm not sure where the pressure is coming from, but I'm sure there's a really good explanation that you have for it.

Craig Richard Smiddy
President, CEO & Director

Well there is. And I'd be more than happy to give you more granularity on that, Greg. I guess the only categories here that I didn't speak to are the financial indemnity, the property and the other coverages. As you can see on financial indemnity, which includes our surety, our D&O, E&O business, you can see the claim ratio there at 59.6% for the quarter, which, as I indicated in my earlier comments, we were very happy with. And that's very similar to the 6-month ratio. Similarly, on property, here too, pretty much flat as a pancake, whether you're looking at the quarter or the year-to-date. So we were happy with that. When you get to other coverages, as you point out, in the footnote for there, it's made up of home and auto warranty, aviation and travel accident. And I can tell you that auto warranty, aviation and travel accident are all pretty much flat. And it's our home warranty business that has seen an increase in loss ratio. So what's behind that are a couple of things. One is the cost of work orders has increased much faster than we expected and much faster than normal. And then secondly, the number of claims that we've seen has increased. And we think that part of that is actually COVID related in that people are home and discovering issues with whether it be appliances or systems in their homes and are making more claims. So you couple those things, and we've seen an increase in our home warranty business. So the good news about home warranty, as you well know, is that it's extremely short-tail. And we can react extremely fast as we always do on that business with pricing. And it's a fairly straightforward business. And when we see those kind of things, we immediately take pricing action. And it's really that simple. So those are -- that's what's underlying that increase that you're seeing there, Greg.

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

Excellent color. I just wanted to pivot back to your comments around the benefit from the lower claims frequency offset by the rising severity. If I think back to just the way you approach your loss picks and the reserving methodology of the company. I already -- it strikes me that it's usually pretty cautious. And so you may see, for example -- in my mind, you may be seeing a trend of better claim frequency, but you may not be fully taking that into account and your assumptions around loss picks. So I guess the question becomes, is this one of the cases where you're seeing the severity and fully accounting for that in the numbers and really sort of discounting the benefits of the lower claim frequency? Or am I just overthinking this altogether?

Craig Richard Smiddy
President, CEO & Director

No. I think your question is a good one. Let me just clarify. Was your question specific to comp or other lines?

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

You could apply it to your auto line, you could apply it to comp. I mean where -- in the context of our previous conversations, Craig, where you've talked about how you hold on to your IBNR for several years out before you start taking down this particular year. I'm just thinking about it. Here we're having an aberration theoretically in lower claim frequency. Does that mean that you automatically are taking down your reserves? Or does this mean that you're going to wait for several years before you recognize that benefit? Just trying to understand sort of the cadence of what's going on the economy in the context of the numbers you've reported in the -- pretty much the major coverage lines.

Craig Richard Smiddy
President, CEO & Director

Right. So on comp, in particular, the frequency decline there is, we think, a very temporary phenomenon. And therefore, as we stated, we have taken a very close look at our loss picks. And we have taken into consideration the unknowns of COVID-19. We've weighed that against our -- the reduction that we're seeing in frequency when we look at the accident year, and we say in totality -- and there's other factors as well. But in totality, there isn't severity in comp that is creating any concern. And -- but it is a matter of frequency down. And then as I went into detail in my opening comments, there is some impact from COVID-19. So we put it all together, and we say, we're confident in our accident year loss pick. And I might just take the time to say, that is why we know a lot of our competitors, our peers might be putting up bulk reserves or they all are going out with headlines on their cat, the cat number that they're putting up. And we just don't see that as necessary. First off, we don't write international -- and I'm moving a little outside of the comp question, but we don't write any international business other than Canada. We don't have political risk exposure, trade credit exposure, entertainment and insurance exposure. So far, we haven't seen any surety losses. From a commercial property standpoint, we have an immaterial amount of policies out there without a virus exclusion. Our loss on our travel accident business is immaterial after reinsurance is applied. So far, GL losses have been immaterial. We're not a main street retail insurer. And you put all those things together, and there just is no reason for us to put up a specific COVID-19 number. The only thing that we certainly will have is the work comp losses. And that's where we took a hard look at our accident year loss pick, and we're very comfortable with it. And we have no intention of reducing it prematurely. So we will hold that. And if things change with respect to COVID-19, if they change for the worse, we would actually look at maybe increasing it. But right now, given all those reasons, the loss-sensitive nature and the mild proportion of the losses, we're very comfortable with where we're at.

So -- and then on auto, the other big one. There, yes, frequency is down. But again, we think it's temporary. And we need the reduction we're seeing in frequency to offset the increase we're seeing in severity. So therefore, there too, we would say that we're comfortable, confident in our loss pick for auto. We're not looking at decreasing it or increasing it because it's a different dynamic on that line, and that is that the reduction in severity is helping, along with the rate increases to offset the things we're seeing with severity.

Operator

At this time in the moment, we have no further questions. I would like to turn the call back to management for any closing remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well we certainly appreciate everyone's participation. As we said, we feel good about where the business sits relative to the overall economy in America and throughout the world. And we're very proud of all of our more than 9,000 associates that have stepped up and are doing what they need to do to make sure that our business moves forward and that we continue to serve all of our constituents. So thank you all, and we'll look forward to talking to you again next quarter.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect.