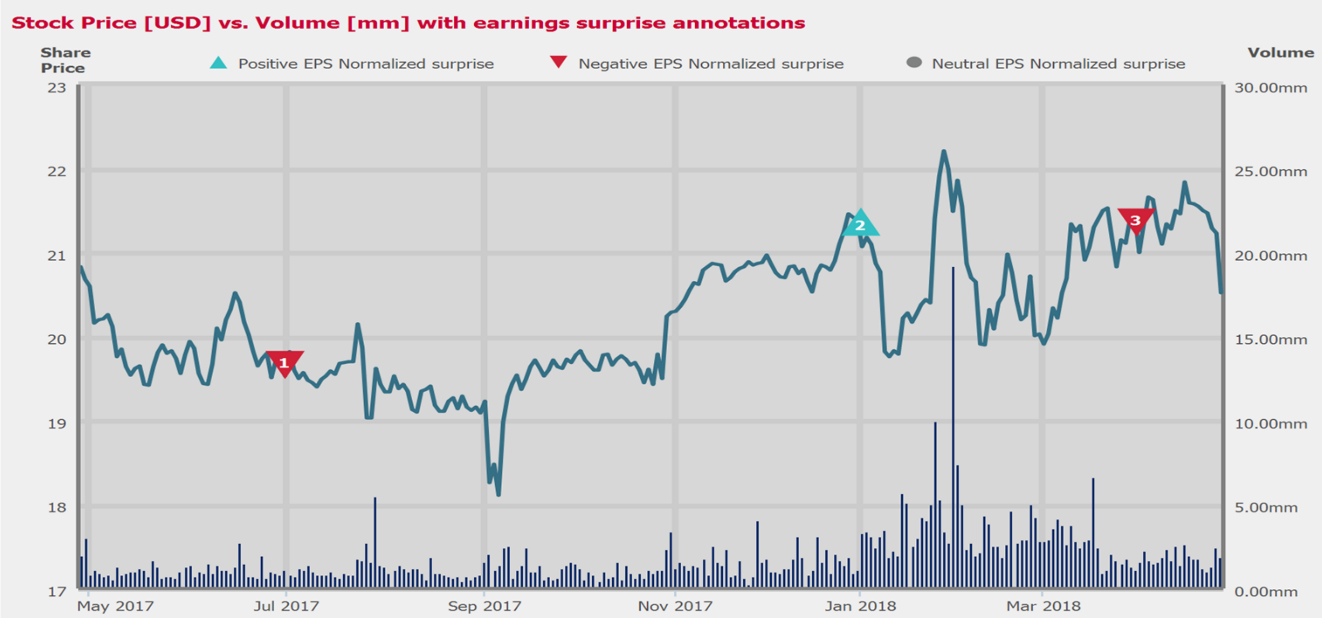
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ2 2018 Earnings Call Transcripts
Thursday, July 26, 2018 7:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.47	6.82	0.46	1.85	1.92
Revenue (mm)	-	-	-	-	6100.00	6202.00

Currency: USD
Consensus as of Jul-26-2018 4:11 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	0.36	0.34	(5.56 %)
FQ3 2017	-	0.09	-
FQ4 2017	0.28	0.33	17.86 %
FQ1 2018	0.41	0.40	(2.44 %)

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Craig Richard Smiddy
President & COO

Karl William Mueller
Senior VP & CFO

Marilynn Meek
Investor Relations Professional

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

ANALYSTS

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Matthew John Carletti
JMP Securities LLC, Research Division

Presentation

Operator

Good day, and welcome to the Old Republic International Second Quarter 2018 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded. I would now like to turn the conference over to Ms. Marilynn Meek with MWW Group. Please go ahead.

Marilynn Meek
Investor Relations Professional

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss second quarter 2018 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 be -- may involve forward-looking statements as discussed in the press release and statistical supplements dated July 26, 2018. Risks associated with these statements can be found in the company's latest SEC filings.

This afternoon's conference call will be led by Al Zucaro, Chairman and CEO of Old Republic International Corporation and several other senior members -- senior executive members, excuse me, as planned for this meeting.

At this time, I would like to turn over the call to Al Zucaro. Please go ahead, sir.

Aldo Charles Zucaro
Chairman & CEO

Well, thank you, Marilynn, and hello to everyone from all of us at Old Republic. And as always, we're appreciative. Thank you for joining us in this discussion.

This time around, we once again, as Marilynn just said, have several of our senior executives participating in this discussion. First, Craig Smiddy, who's Old Republic's President, and he will be covering the General Insurance part of our business; next, Mark Bilbrey, who is President of our title operation, and he's covering today for Rande Yeager, who is Chairman and happens to be out of the office; and, of course, Karl Mueller, our CFO, who will, as he usually does, comment about some of the important features of Old Republic's financial position as well as related matters.

Let's see. Just want to make sure that in anticipation of this discussion today that everyone has seen this morning's earnings release to which we will be referring. And also as in past conference calls, we'll also refer from time to time to some additional statistical information that we include regularly in a financial supplement that we post on the Old Republic website.

So looking at the overall picture of our business, we really think that the first page of the release says it all, we think, in a very transparent way. And as everyone can see, our title business, which has done a lot, for the last number of years, been driving Old Republic's bottom line upstream since we -- since our company emerged like many others from the Great Recession-induced downturn that title is currently taking a bit of a breather, and Mark will speak to that in a few minutes. On the other hand, the General Insurance segment, which had been lagging some in the past several years, is continuing to make some headway in its contribution to earnings. And then there is the small runoff, the so-called RFIG business, which consists of our mortgage guaranty and the consumer credit indemnity businesses, both of which have been in runoff for a number of years. And both of those businesses, which are now truly delivered from the remnants of Great Recession-era difficulties and are really performing in an expectedly quite stable manner.

So when we put all of these together, the consolidated business's result we think shine whether we look at them from either a pretax or post-tax sets of lenses. Although we should, as we've done, of course, in the release, we should again note that -- and it is bear -- it bears noting that the post-tax net operating income benefited a great deal from this year's 40% drop in the federal corporate income tax rate. And we've shown, among other places in the release on Page 6 of this -- that the year-over-year improvement in post-tax operating income was enhanced very significantly by this reduced tax rate. And specifically, if we do the calculations, you would see that roughly 70% and 70%, respectively, of the increase in the post-tax operating improvement came from the lower tax rate with regard to the second quarter and the first half of this year.

So there you have a basic overview, again, based on taking a quick look at the highlights on Page 1 and on Page 6 insofar that this analysis that I just mentioned. And with this overview, now, let me turn it over to Craig Smiddy, who's going to speak to and review our General Insurance business. So Craig, do you want to take over?

Craig Richard Smiddy
President & COO

Okay. Thank you, Al. Well, as reflected in the release and the financial supplement, the General Insurance group continued to see improving trends in many facets of our business. With respect to top line, we saw a net premiums earned rise by 5.1% when compared to the second quarter of '17. And year-to-date, we've seen an increase of 5.8% compared with the same period of 2017.

We experienced greater writings in most lines of coverage, especially in our commercial auto where rate increases continue to earn through. On the other hand, greater writings were somewhat offset by a reduction in workers' compensation writings, where rates are very difficult to maintain as rating bureaus continue to force rates down in response to improving lower frequency trends.

We continue to experience strong renewal retention ratios as well as reasonable growth of new business. We're also seeing some lift in exposure growth and therefore premiums due to the improving economy. As always, each of our underwriting operations continue to operate in a very competitive environment where the perception of excess capital in the insurance sector continues to fuel competition. But we're holding our own. And in most parts of our business, we're experiencing strong renewal retentions in new business as I indicated, which reflects that indeed we are holding our own.

The group's overall composite ratio improved to just over 100% -- excuse me, from 101% in the second quarter of 2017 to 97% for the same quarter this year. Year-to-date, the composite ratio has improved from 98% to 97.4% when compared to 2017.

Our group's expense ratio of 25.5% for the second quarter was slightly below the 25.6% in the same quarter last year. While year-to-date, the expense ratio sits at 25.9% compared to 25.2% last year. As we expect premiums will continue to grow, our expectation is that this ratio will gradually decline. Although, mix of business changes are also a factor that can increase the expense ratio, at least temporarily.

As shown in the financial supplement on the ORI website referenced earlier, the commercial auto claim ratio declined to 75.7% this quarter compared to 79.8% this quarter last year. And year-to-date, this claim ratio came in at 77.3% compared to 81.1% last year.

We haven't seen severity trends in the commercial auto coverages abate, and therefore we remain very diligent to ensure that rate increases continue to offset the loss cost trends that we're experiencing. Our objective for this line of coverage remains to bring the claim ratio down to our historical experience in the low to mid-70s.

Our second quarter workers' compensation claim ratio declined by 4 percentage points to 73.4% from 77.4% in the same quarter last year. Year-to-date, we stand at 73% compared to 76.5% in the first half of 2017.

Our general liability writings are smaller by comparison to the other coverages we write, so we typically experience more volatility quarter-to-quarter and year-to-year. As shown in the statistical exhibit, the latest quarter's results reflect the claim ratio of 72% compared to 75.4% in the same quarter last year, while year-to-date, this claim ratio came in at 71% compared to 65.9% in the same period of 2017.

All of the claim ratios we report are, of course, inclusive of both favorable and unfavorable claim development. In the latest quarter, we saw no favorable or unfavorable development, while year-to-date, we've experienced 1 percentage point of unfavorable development, and this compares to the 1.9 percentage point of unfavorable development year-to-date in 2017.

We continue to invest in people, product development and infrastructure, and therefore, we feel very optimistic about our growth prospects. All of our underwriting units, however, remain very focused on underwriting discipline, with the bottom line profitability focus taking priority over top line premium growth.

So on this optimistic note, I'll turn the discussion over to my colleague, Mark Bilbrey, for his comments on our Title Insurance business.

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Thanks, Craig. As reflected in this morning's earnings release, we're pleased to report on the title group's continued success in 2018. For both the second quarter and the first half of the year, all-time records were set. Total operating revenues of about $589 million for the quarter represents a 6% increase over 2017. We achieved this volume despite the fact that total residential mortgage originations were down 3.8% for the first half of the year according to MBA forecast. This overall drop reflects 3.6% growth of purchase money originations, offset by a 16.9% drop in the refis or originations. Our agency business established a new high in revenues for the quarter, registering an 8% growth over the period -- prior period. While that, our direct operations reflected a rise of 1.2% in revenue. For the latest quarter of available data, our national market share has also climbed to 15.5% compared to 15.3% in the same time in 2017.

Operating income totaled almost $61 million for the second quarter and $90 million for the first half 2018. While these were the results reflect a moderate decline from 2017 principally due to a lesser positive impact of favorable claim reserve developments between periods, and offset losses continue to develop in a favorable pattern that has kept the claims ratio below 3% for all the previous presented. While there is no guarantee this trend will continue indefinitely, we nonetheless feel very optimistic in the near term.

In summary, 2018 has been a very good year for -- so far for title. With the overall housing market slightly down, we continue to make progress financially and competitively. We're approaching the remainder of 2018 with cautious optimism. While the real estate market, by most accounts, should hold steady on the purchase side of the equation while refinances continue to decline relative to the total origination market, the usually higher fees per order generated in new purchase transactions should mitigate the possible adverse impact in the drop in refi revenue. In the commercial markets, we believe we will continue to make inroads based on our expertise and our expanding customer base. And all in all, we remain very optimistic on the near-term future and success of Old Republic's titles business.

We'll be happy to answer any questions anyone may have during the question-and-answer period. In the meantime, I'd like to turn the call back to Al Zucaro.

Aldo Charles Zucaro
Chairman & CEO

Okay. I think we just need to say a few words, as necessary, with regard to the RFIG run-off business. And as you can see in the release, it shows that both parts of the segment, namely the MI portion, the mortgage insurance, and the CCI portion, consumer credit indemnity, that both of these parts are now reflecting a very stable situation. And we think that as long as the economy remains on an even keel with good employment and reasonable mortgage rates, that we should continue to witness this -- a continuation of this very stable situation.

Now admittedly, MI margins should obviously decline gradually as infrastructure and maintenance costs become, again, gradually misaligned with a decline in the top line. But having said this, we're still anticipating posting positive though, again, declining earnings, as the MI business closes in to the ultimate extinction of the policies enforced. And most of these should be extinct, at least the vast majority should be extinct by 2022 or thereabouts. But until then, just as we have experienced in the last couple of years in particular, the MI capital base should still build up. And we're certain that as we've said before, that we're going to be able to figure out an appropriate way to use this capital for the -- for a most beneficial long-term outcome in the interest of the many key [indiscernible] at Old Republic and in our mortgage guaranty business.

In final analysis, we still consider this MI business of ours to be a very -- most valuable and viable franchise. And we think that it can be activated to great advantage in the right circumstances. And I'm sure that those will come about in the near term.

As to the smaller -- the much smaller portion of the CCI business, we think that it will, too, mosey along in a profitable way as it is also experiencing a quickening extinction, if you will, of the number of policies in force. As you see in this morning's release, it's throwing off a small profit and we expect that to continue, bear in mind that we also have a reasonably low expense ratio for that business. So the combination of all of that should lead to positive outcomes for the foreseeable future.

I think that's the extent of comments that are necessary on this RFIG runoff business. So I think we're at this part of the discussion where you, Karl, can take over.

Karl William Mueller
Senior VP & CFO

Well, good afternoon, everyone. As usual, we'll highlight key elements of Old Republic's financial condition and operating results that have not already been covered elsewhere.

First of all, total cash and invested assets declined to $13 billion from the $13.5 billion that we reported at the end of 2017. The change was primarily driven by dividend payments which include the special $1 per share dividend that was paid to our common shareholders this past January as well as the decline in net unrealized investment gains. This was offset, to a degree, by the investment of positive operating cash flow.

The composition of the portfolio remains relatively consistent with year-end 2017. Fixed maturity and short-term investments make up approximately 75% of total investments. The A quality rating on the fixed maturity portfolio remains stable, and the average maturity continues to be approximately 4 years. Investments in high-quality dividend-paying equity securities make up the remaining 25% of the overall portfolio.

Net investment income in both 2018 periods grew, percentage-wise, by mid-single digits, due primarily to higher year-over-year cost-basis investment balances but also with flat yield environment for fixed income securities and a higher dividend income.

On a consolidated basis, claim reserves continued the trend of favorable development during the second quarter as well as the first 6 months of this year. This morning's release, along with the financial supplement on Pages 4 and 5, disclosed the effect of prior year favorable or unfavorable claim reserve development on the reported claims ratios for all 3 of our primary segments that being general, title and the mortgage guaranty business.

As of June 30, Old Republic's book value per share rose by 1.5% for the quarter to $17.08. Year-to-date, book value per share is down 3.6%. The primary components of the change in book value are shown on Page 8 of the release. A significant contributing factor for the year-to-date drop in book value, you'll notice, is the $0.86 per share decline in the fair value of the investment portfolio, most of it -- most of which occurred in this year's first quarter.

The debt capitalization ratios are also shown on Page 8 of the release. The lower debt ratio at the end of June is reflective of the conversion of the remaining $471 million balance of convertible notes into roughly 32 million common shares of Old Republic's common stock during the first quarter this year. The consolidated results for the second quarter benefited from the elimination of the approximate $5 million interest charge on net convertible debt, and I would say future quarterly periods will benefit likewise.

The year-over-year comparison to both pre- and post-tax income figures are affected by, as Al mentioned, lower federal income tax rates as well as the new accounting standard that requires changes in fair value on the equity portfolio to be recorded through the income statement rather than directly in shareholders' equity.

In this morning's release, we have included schedules that provide comparisons of pretax and net income amounts as if the 2017 period has followed the same accounting practice. The schedules demonstrate the significant volatility that has been introduced into reported net income. Pretax income, however, which excludes both realized and unrealized investment gains and losses and the effect of the lower tax rates, is up 24% for the quarter on a year-over-year comparison and 5% for the year-to-date period for the reasons that have already been given.

So on that note, I will hand the call back to Al for any concluding remarks.

Aldo Charles Zucaro
Chairman & CEO

Okay. So as you've just heard, we've got reasonably good news about our business, as we speak. And when we put everything together, well, we feel very, very good about Old Republic's situation today. Systemwide, our focus continues on the core underwriting and related services disciplines of each of our businesses, and that has remained and will remain unchanged. That's an important part of our culture as an underwriting organization.

And also, going back to Page 6 of the release, it shows that the consolidated composite ratio of claims and expenses to premiums and fees in this year's first half is closing in to our 95% long-term bogey for the company's long-tailed mix of business. And most of our business is of the so-called long-tail nature, whether its Title Insurance, workers' compensation, auto liability and on and on, those are all long-tailed coverages, and that's why we need to take a look and manage our business, by the way, for the long run.

We continue to think that the North American economy, which is our playground, and we're exclusively focused on it, we don't fool around overseas, that it is likely to remain in a very moderate growth mode for the foreseeable future. Our current guess is that the GDP will probably grow within a range of 2.5% to 3% or so this year and for the foreseeable future as I see. And in that context, we think that the services we provide to some of the more important industry sectors, and I'll mention title, I'll mention trucking and I'll mention the workers' compensation line and I'll mention the large accounts business that we do at Old Republic, that the combination of all that should enable us to grow the consolidated business at a much faster clip than the economy at large.

We think we can do this, again, on the strength of a very high-quality intellectual talent pool that we're fortunate to have in our company and with that pool married very steadily to a very strong balance sheet, which can see us through good times and bad times. And that strong balance sheet and that talent is what should continue to enable us to compete on a level playing field with any and all up-comers in the areas in which we are focused and specialized.
So I guess with all of this, I think it's safe to say we're in great shape to drive the business to greater success as we look ahead. So on this note, we'll now turn this visit to some of the questions and answers that may be out there as we promised at the beginning of this visit. So operator, you may as well open it up.

Question and Answer

Operator

[Operator Instructions] We'll now take our first question from Mr. Greg Peters with Raymond James.

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

I wanted to focus on the 2 slides from your supplement, slide -- number -- Page 4 and Page 5 for a couple of questions. First on Page 4 and, Craig, I know you mentioned -- you talked about a number of the line items on this page on your prepared remarks. I wanted to focus just on the 3 major lines, the commercial auto workers' comp and general liability. And specifically, I was looking at the change in premium first half of '18 compared with the first half of '17. And in commercial auto, it's up almost 12%; workers' comp down 3.5%; general liability, up 12.9%. Of course, I'm referring to the net premiums earned row. And Craig, in your comments, you said rate exposure and new business. And I'm wondering if you could just give us some more granular detail around how much is rate, how much is exposure and how much is new business.

Craig Richard Smiddy
President & COO

Sure, Greg. I'll give you a little more color around that. Commercial automobile, which, as we indicate in the supplement, consists primarily of trucking business, there is a considerable rate in that premium. We're still obtaining rate increases in the high single digits on commercial auto. On the other hand, as you probably have read, the -- because of the economy, commercial trucking business is certainly experiencing considerable lift there as well. So the commercial auto is really a strong combination of rate and exposure, and there's new business in that as well. But turning to workers' compensation, it's a bit of a different story there. We write workers' compensation in support of our other lines. So for instance, we do write it for truckers and we write it for aviation and some of the other things that we do. And there, too, it will experience some lift from the general economy as things pick up and as wages grow. So exposure growth has increased, but where the opposite is happening, I'd say opposite from commercial auto, is that the decline in premium is really reflective of decline in rates. There, as I mentioned in my comments, the bureaus are filing rate decreases in virtually every state, and the only thing to point out with respect, again, to those decreases is that they would appear to be justified because the frequency that we're experiencing, the frequency that the industry is experiencing, continues to decline considerably and, as such, so do rates. So workers' compensation is a different story than the commercial auto. General liability, not much to say there, Greg. It's a combination of all 3, and it's, as a mentioned earlier, a smaller component of our overall writings, and we write that usually in support of the other lines. So that's a story of probably a little bit of rate and some exposure growth and a little bit of new business.

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

Perfect. On the workers' comp comment, with payrolls increasing, I imagine, with strong employment in the United States, can -- and you said it was a high single digit in trucking and rates on the positive side. Would you characterize workers' compensation rate for you guys being down, mid-high single digits, low single digits? Where would you put that band as an offset to rising exposures?

Craig Richard Smiddy
President & COO

Yes. Rates for us are down low single digits. And if you look at the NCCI rates or any other state bureau rates, you can see that the base rates that they're filing are down probably on average in the high single digits with that varying state to state. But we're trying to maintain as much rate as we can on workers' compensation. So therefore, in total, it would be low-single-digits decreases in the rate for us.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

One other question on your prepared remarks around the general insurance business, around the expense ratio guidance for this year. I think of 23% to 25%. And on the first half of -- through the first half of 2018, you're definitely coming in above that guidance range. And I know you referenced in your prepared remarks that there's some seasonality, but maybe could provide us some additional comments about why the expense ratio might be lower in the back half of 2018 compared with the first half of 2018.

Craig Richard Smiddy
President & COO

A combination of a couple of things, Greg. I think there are some expenses that are front-loaded for the year in the first few quarters. And then on the other hand, we are trying to achieve expense growth at a lower pace than our overall revenue growth. So a combination of those 2 things would lead us to believe that we can continue to bring down that expense ratio over time.

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

Perfect. Okay. I wanted to throw one question in Mark's direction, so that would be working off Page 5 of your supplement. And I was looking at the reserves-to-paid loss ratio and looking at the history of that ratio with it being as low as 7:1 in 2013 and then as high as 9.5:1 in 2016, it seems to be hovering around the higher end of that range. And I'm just curious given the growth in the commercial exposures what the appropriate level -- what the appropriate long-term range should be. Is -- because of commercial, is it at the higher end, or should we expect this to gradually go back down to the lower end of the range as it was in 2013, 2014?

Mark Allan Bilbrey
President of Old Republic Title Insurance Company

Greg, thank you. Hi, this is Mark. I'd like to think that we would -- it's going to fall back down to the lower. I think, historically, it's going to balance -- we feel it's going to balance between that 7 and 9 going along. On the commercial side, we've been very blessed in that. We've got about a 3% growth in it so far this year in the commercial side. Also, the claims scenario on that is much better than your traditional residential market. But we feel there's a lot of things in the pipeline that haven't been quite come in because of our agency-centric model, so the lag's in there a little bit that we've got to the table. So it's -- I'm hopeful that number will go down a little bit for -- but I couldn't guarantee that. I feel pretty comfortable where it's at, but I think you're somewhere in between.

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

Okay, great. And just to close it up here and turn it over to others, given the new accounting rules where you're taking these unrealized changes in value of your equity security portfolio, I'm running it through your income statement. I'm curious if you think it might alter your perspective on your investment allocations on a longer-term basis. And that's my last question.

Aldo Charles Zucaro
Chairman & CEO

No. I don't think so at all. Again, our portfolio, Greg, is structured to, in fact, align expected maturities and payments of claims and other obligations, and then we use the bond portfolio for that, primarily. And we look to our stock portfolio as being much more of a liquidity fund. Our investment policy historically has also been aimed at assuring growth of investment income. And in that we do not count the possibility of unrealized appreciation. Though we do welcome it obviously, but that's not our shtick. And so from both of those standpoints, we don't believe that the new accounting rule is going to change anything in what we -- how we manage our portfolio, how we set expectations for our people, from a profit-sharing standpoint or from a capital return standpoint. So to us, it's fundamentally a nonevent. And as I say, it is not part of the equation which drives the management of our business.

Operator

We'll now take our next question. Our next question comes from Mr. Matthew Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple mostly numbers questions. First one is on the mortgage business, you've given us the shareholders' equity in the past. Where did that sit at June 30?

Aldo Charles Zucaro
Chairman & CEO

Refresh my memory, Karl. Aren't we around $450 million or thereabouts?

Karl William Mueller
Senior VP & CFO

That's in the neighborhood, yes.

Aldo Charles Zucaro
Chairman & CEO

Yes. $450 million, Matt.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then a couple of other numbers questions. One is just on, as I look at fee and other income, can you help me think about what's driving the growth there and any seasonality kind of quarter-to-quarter that we should think about?

Aldo Charles Zucaro
Chairman & CEO

Seasonality is not that critical for us. I mean the business comes in pretty much in the same percentage way quarter in, quarter out between the years. So we don't worry. I don't pay much attention to that. I interrupted you before, Matt. I wanted to say that with respect to the mortgage guaranty, when we say that capital is $450 million or thereabouts, that's a GAAP number. And as you know, there is a quite a bit of that capital, if not the majority of that capital, frozen in to the so-called contingency reserve, which you cannot willy-nilly take out, okay? So we've always got to be careful about what type of number we're talking about, statutory or GAAP, because the GAAP number can be very misleading for that business.

Matthew John Carletti
JMP Securities LLC, Research Division

Right. Okay. Last one probably for Karl. Just tax rate on operating income, how should we think about that going forward assuming kind of current mix and everything else? More like the second quarter number which I think was closer to 19, or kind of 6-month sort of run rate which I think was closer to 17?

Karl William Mueller
Senior VP & CFO

Yes. I think when you look at the effective tax rates, the second quarter rate on operating earnings of a little -- of 19.3% is probably more in line than the year-to-date number. I think as we discussed last quarter, we had a couple of items that occurred in the first quarter that drove that rate down lower than it would normally be. And as a result, the 6 months still reflects some response to that. So I think that the second quarter number is probably closer to a normal run rate.

Operator

We'll now take our next question from Mr. Gary Ransom with Dowling and Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question on the reserve development. I know it was 0 in total. But looking across the industry, a lot of other companies have been talking about very large favorable reserve development in workers' comp. I was wondering if you are seeing the same kinds of development

[Audio Gap]

made the quarter 0.

Aldo Charles Zucaro
Chairman & CEO

Karl, do you want to handle that?

Karl William Mueller
Senior VP & CFO

Sure. Yes. Gary, as you might suspect, there is volatility from one line to another. I would say workers' compensation for the year probably had some slight unfavorable development that was offset, to a degree, by some of the other lines. But nothing significant for the 2018 second quarter.

Aldo Charles Zucaro
Chairman & CEO

Yes. And also, a direct answer to the question, we don't know where the rest of the industry is coming from. As you know, everybody's got different reserving methodologies in terms of the loss pick methodology, holding periods and things like that. And therefore, what we do is not necessarily the same as anybody else. But we are consistent, and as Karl just said, we are experiencing a lot less downdraft in loss reserve developments in comp in particular in the last year or so than we were a couple of years ago.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. Okay. One other little numbers question. I noticed in the corporate line the pretax operating income was higher. There's actually a negative expense in the line that's called corporate interest and other expenses net. And I realized that wasn't sure of all the things that might be on that line. Could you help us on that?

Karl William Mueller
Senior VP & CFO

That line item also includes some consolidation elimination entries. So when you wrap it all together, it just resulted in a slight negative number.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Sorry, is there any sort of run rate you might consider appropriate for that corporate segment in terms of the bottom line?

Aldo Charles Zucaro
Chairman & CEO

I -- Karl, you can speak to it. But I've always felt that, that number is, to a large degree, predicated on the difference between external interest cost and the intrasystem interest cost. And by that, I mean we've got, let's say, in the General Insurance business, we have an interest cost number there which becomes an interest income number at the holding company level, right? I don't know if you follow that thinking...

Gary Kent Ransom
Dowling & Partners Securities, LLC

Right. yes. No, I get it. Yes. It's allocated is in other words.

Aldo Charles Zucaro
Chairman & CEO

Right, correct.

Operator

[Operator Instructions] We'll now take our next question. Our next question comes from Mr. John Deysher of Pinnacle.

John Eric Deysher
Bertolet Capital Trust - Pinnacle Value Fund

Just a basic question on the workers' comp, perhaps very basic. But why is the frequency declining? It would seem to me in a robust economy where workers are employed that the frequencies would probably be going up. So I'm kind of wondering why the frequency is declining. Is it risk reduction programs are put in, in the front end? Or why is it declining?

Craig Richard Smiddy
President & COO

Sure. I'll try to add a little more color around that. As I mentioned in my earlier comments, if you look at the NCCI information, who is the bureau that does a lot of the statistical analysis on comp, you'll see that those frequency rates are down, and what's driving that is several different components. A couple of the main ones are indeed safety as you mentioned. This has been a phenomenon that has been occurring now year after year for many, many years. And safety continues to improve and, as such, frequency improves. Also, we actually see an inverse relationship between the economy and the employment rate and frequency and severity of comp. That is, when there are jobs that are plentiful and wages that are growing, workers are more inclined to want to keep working. And on the other hand, when jobs are scarce and wages are declining, workers are less so inclined and therefore less reluctant to make workers' compensation claims.

Operator

It appears there are no further questions at this time. I'd like to turn the conference back to you for any additional or closing remarks.

Aldo Charles Zucaro
Chairman & CEO

Okay. Well, this is Al Zucaro, and I think we, as a group, have obviously attempted to respond clearly to the questions that have been raised, and we've done what we think is necessary to perhaps shed little more light and color on what we believe is a -- always is a reasonably transparent release and which speaks to the results of our business and the current financial position of the company. So on that note, we will say farewell, until the next time. And again, we appreciate very much your interest in our company. You all have a good afternoon.

Operator

Thank you. Today's conference call
[Audio Gap]