S&P Capital IQ

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Old Republic International Corporation

NYSE:ORI

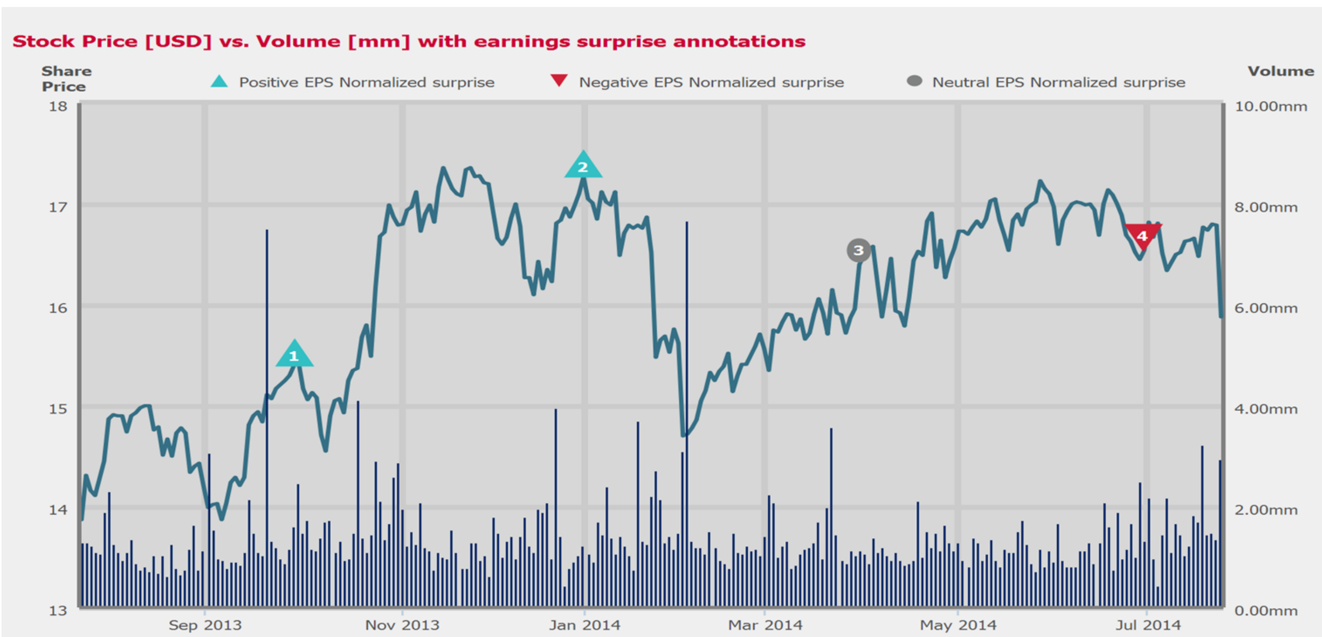
FQ3 2014 Earnings Call Transcripts

Thursday, October 23, 2014 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.26	0.25	▼(3.85 %)	0.28	0.85	1.09
Revenue (mm)	1318.55	1391.00	▲5.49	1299.65	5381.85	5138.00

Currency: USD
Consensus as of Oct-10-2014 7:55 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	0.11	0.35	▲1 218.18 %
FQ4 2013	0.20	0.33	▲2 57.14 %
FQ1 2014	0.24	0.25	3 0.00 %
FQ2 2014	0.26	0.13	▼4 (50.00 %)

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

ANALYSTS

Christine Amanda Worley
JMP Securities LLC, Research Division

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Stephen Mead
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Presentation

Operator

Good day, and welcome to the Old Republic International Third Quarter 2014 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 Scott Eckstein with MWW Group. Please go ahead, sir.

Scott Eckstein

Thank you, operator. Good afternoon, and thank you for joining us today for Old Republic's conference call to discuss third quarter 2014 results.

This morning, we distributed a copy of the press release. If there is 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 October 23, 2014. Risks associated with these statements can be found in the company's latest SEC filings.

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

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

Well, thank you. And thank you to everyone for -- and welcome to our regular quarterly review of Old Republic's business. As was just indicated, we've got 4 of us here who will handle various parts of our business segments.

So I'll start the ball rolling, so to speak, and say a few words about the consolidated picture in -- that you see in the news release this morning and provide a little more color relative to our runoff operations in the mortgage guaranty and consumer credit indemnity business.

The latest quarter's results from a consolidated standpoint were basically a repeat of what has transpired in this year's first 2 quarters and as well as several, I might say, recent and earlier quarterly periods of 2013.

The general insurance business, we think, performed very well, except for the ongoing underwriting difficulties we've been experiencing among the workers' compensation and general liability lines in particular, as those of you who listen to these calls and read our stuff know that we've been addressing this issue in the last couple of years in particular, but safe to say that these coverages have indeed presented us with challenges whose final resolution has eluded us much longer than we had thought. But in any event, Scott Rager will have more to say about the outlook on these 2 lines in particular in a few minutes.

The title business is basically catching its breath, I think, and this is after experiencing a couple of high-performance years in '13 and '12. And we think that as the housing and the economy generally continue to be fixed, to be improved, that our title business will benefit and reach up to a much greater earnings power.

Looking at the RFIG runoff business. It produced results in this last quarter that were pretty much in line with our expectations. The most recent quarterly trends, except for this year's second quarter when, you may recall, we had a major litigation settlement which came in way in excess of carried reserves for the CCI portion of the runoff, that the outlook for this business looks pretty stable for the time being. As we reported during last quarter's conference call, the MI portion of this RFIG segment is basically stabilizing within a scope of an expected 10-year runoff period, which right now we think will probably extend to 2022 or thereabouts. So as a result, this line should experience, we think, a gradual decline in premium volume as the book of in force business continues to peel off.

If you again look at some of the numbers we show in the statistical exhibit on Page 6. That's the exhibit we post on the website in the morning of our earnings issuance. If you look at that page, you'll see that the net risk in force has declined by about, oh, roughly 45% since we placed the business in runoff in August of 2011. Now on a quarterly basis, since year-end 2012, that net risk in force has been dropping by an average of roughly 5% each quarter. And as a result of that, the good thing about net risk evaporating, so to speak, is that it does reduce or eliminate potential claim exposures down the road.

Speaking of claims from a claims cost standpoint, the quarterly trends also continue in a positive vein for the mortgage guaranty business. Claim ratios have been declining fairly steadily since year-end 2012. And this is the case, I think, whether we look at these ratios as they are reported in the financial statements or whether we -- as we point out each quarter, whether we factor out the embedded reserve redundancies which have emerged in varying degrees for the mortgage guaranty line for -- all for 7 consecutive quarters now. Every quarter in the last 7 quarters, we've had some wobbliness to it but nonetheless a fairly steady decline -- or increase, I should say, in reserve redundancies. So in this regard, I might say that without benefit of these redundancies, the claim ratio has been well below 100% in 2 of the last 4 quarters, which would mean the fourth quarter of 2013 and then this latest quarter. And of course, the last time we had loss ratios below 100% was in the early months of 2007, before the onset of the Great Recession.

Now I think that -- we think that all of these trends augur very well for the continued stabilization of the MI portion of the RFIG runoff. The better results we're experiencing for the past 6 consecutive quarters are leading to the restoration and helping the rest to restore a positive regulatory capital level for the combination of our 3 mortgage insurance company subsidiaries. So particularly if you include -- if we include the so-called statutory contingency reserve, which is an arbitrary reserve that mortgage guaranty insurers must set up and usually amounts to 50% of each period's -- or in the premiums, that if we include that statutory reserve, which particularly for a runoff book of business such as this should not be necessary down the road, that our statutory capital resources at the end of September amounted to $195 million. And on an apples-to-apples basis, which takes into account the elimination of the payment of the deferred payment obligations of -- that were in claim reserves and were effectively counted as part of capital in the past several quarters since 2012, that the -- when we eliminate that, the positive regulatory capital is up almost 333% from the negative balance of about $83.4 million that we posted just 1 year ago at the end of September '13.

I might say that roughly half, maybe 55%, of this swing of $278 million from a negative number to now a strong positive number, that roughly 55% has emanated from the earnings that we've -- the statutory earnings that we've been posting, as well as the $125 million that we put up by way of a capital injection in June of this year. So when you wrap it all together, given our strongly held view and our expectation that -- for a continuing, though somewhat slower, emergence of earnings from the MI portion of the runoff, we think that it seems to be a pretty reasonably safe bet that there should be a sufficient part of capital at the anticipated end of the runoff period in 2022, as I mentioned before, for us to at least recover both the 2008 -- capital support additions of some $280 million that we made between early 2008 and in June of this year. So said another way, we think that what we have by way of statutory capital now, plus the earnings that we anticipate in a reasonably conservative fashion now between now and the end of the runoff period in 2022, should be more than enough to enable us to recover these capital addition. And that would be a good outcome for the mortgage guaranty business runoff, particularly when we -- when you consider that we have paid and continued to pay 100 cents on the dollar of all legitimate mortgage guaranty claims presented to us.

Now with respect to the consumer credit indemnity book within this RFIG runoff, that coverage posted a loss of about $12 million, as you see on the table B, I think it is, on Page 3 of the release for last quarter. And this is, of course, a significant turn from the much greater loss that was registered in the second quarter of this year. And as we reported in July when we issued the second quarter earnings release, that loss was driven mainly by the -- by a final settlement of some litigation matter, obviously for an amount that was significantly in excess of reserves that we had previously posted for that exposure.

So that being the case, for the time being, the CCI runoff is -- seems to be reverting to that presettlement period. This means that we are currently collecting renewal premiums and paying all legitimate claims on the one hand. And on the other hand, we are feeding the lawyers to litigate a couple of remaining disputes, commercial disputes, in the CCI area. The most significant dispute we have, which we have steadfastly reported on in our footnotes, et cetera, over the last number of years is between ourselves and one of this country's largest so-called “Too Big to Fail” banking institutions. As I said, this is fundamentally a commercial dispute which stems from our findings on -- of systemic misrepresentations and outright fraud committed by one of the institution's subsidiaries, in particular, to secure CCI coverage from Old Republic in past years when we were actively engaged in that business.

Now as in all litigation, there is never certainty of outcome, as you know, but in this particular instance, we are quite confident that, that -- leaving aside the expense of litigation, i.e. what I referred to as feeding the lawyers, that we think our position will be vindicated as soon as we're able to have a meeting of the minds with the other side.

That's the -- I think that's about the extent of my comments on the runoff business. And so as we indicated before, we'll turn the meeting over to some of our other associates here who will take a peek at various other parts of the business. And we'll start with Scott Rager, who'll address our general insurance business results.

R. Scott Rager
President and Chief Operating Officer

Okay, we'll now discuss the general insurance group results, exclusive of the CCI product impact on those numbers.

Net premiums earned were up nicely for the quarter and year-to-date at 9.5% and 9.4%, respectively. And this trend will likely continue for the remainder of the year as we benefit from new business opportunities in the many parts of our operations. Those opportunities, coupled with increasing economic activity among our customer base and moderate rate increases, is supportive of premium growth at this level. Positive premium trends are occurring virtually in all underwriting operations within the group, but they're particularly accentuated in our risk management, motor carry and transportation and construction business insurance.

With respect to the construction accounts, premium growth is mostly driven by increased rate levels and organic growth among existing accounts. On the claims side of the ledger, as the release indicates, we continue to experience increased loss costs, particularly in workers' compensation and general liability. The increased loss ratios in 3Q for those lines are the result of case reserve development, as has been the case for the last couple of years. Results over that interim have steadily deteriorated in those lines, as indicated by the statistical exhibit posted.

In general, higher claim costs are most pronounced in the middle markets and construction accounts and much less so in the loss-sensitive and adjustable-rate products. As to the latter, insurance have a greater and very direct financial interest in controlling loss costs to ensure deductibles or retention levels or, even alternatively, other loss experience sharing mechanisms. Such ensured participation support our long-term strategy of moving our underwriting focus away from so-called main-Street rate-sensitive products to insurance programs and products that enable prospective or retroactive rate adjustments based on individual customers' claims experience.

As for our results in our construction book of business, we still believe that the effect of the Great Recession and a slower recovery in the commercial construction environment have definitely impacted claim costs to a greater degree than in other markets in which we participate. Diminished opportunities for light duty and return-to-work status continue to drive the long-term trends in claim cost. As claim costs escalate, obviously, more adequate rate levels are necessary to address that environment. We're implementing the necessary underwriting and primary strategies in these regards and have every expectation of progress in the near term.

All in all, workers' compensation and general liability loss ratios are certainly not where we want them to be. Results can vary quarter-to-quarter, but our emphasis is on building quality books of business that deliver over time. That's our strategy, and we're actively managing toward that end.

In a nutshell and as we've said before, the expected loss ratios and workers' compensation and general liability should moderate over time to more historic levels. The expense ratio at 22% for the quarter and 22.8% year-to-date is the result of increased writings and our continued efforts to efficiently manage the business as a low-cost producer. Looking ahead, we expect good, steady growth for the remainder of the year, with operating ratios moderating as to our strategies -- as our strategies to address the issues discussed are more fully implemented.

Those are my remarks, so now I'll turn the discussion over to Rande Yeager.

Rande K. Yeager
Chief Executive Officer and President

Great. Thank you, Scott.

The Old Republic title business continue to build its profit base this year and has bested the second quarter of 2014. This, in return, had shown a significant improvement over the first quarter. As reported this morning, the earnings were positive at $28.2 million.

Just a little bit about our market here. While it bounces up and down, on a quarterly basis, we're up slightly this year and expect to end up the year a little bit ahead of where we were last year and somewhere just over 15%. The real estate activity continues to be slow. This year, refinance activity is down about 60% and residential purchase money transactions are down about 13% in the latest reports compared to 2013. In the latest quarter, our commercial business continued to grow. We've placed a great deal of emphasis on this area from both an intellectual capital and technical infrastructure standpoint, and it's really paying off for us. There is not a great deal of optimism currently that there'll be a quick turnaround in the real estate market, but in the long term, interest rates could tick up slightly but not enough to deter many purchase money transactions, which is a good thing. The factors affecting the purchases of homes are much more related to getting first-time buyers into the market, as well as those who may not have perfect credit. This will be largely dependent on lenders feeling comfortable with any rules affecting QM, which are qualified mortgage standards being established on a national scale.

As a company, over 70% of our title premiums and fees are currently coming from the agency side of our business because -- and because expenses in this segment are highly variable. This allows us to maintain a fairly consistent expense ratio. Profit margins in direct operations tend to be more volatile and are harder to manage in down markets, but overall, our product distribution strategy has been effective in bridging the peaks and the valleys of -- in a consistent real estate market.

Our corporate philosophy throughout Old Republic's holding company system is to manage for the long run. The strategies we employ are effective for maximizing profits in the near term. And as well, they provide for an optimistic future. Temporary market setbacks we're experiencing are not precluding us from staying the course and building upon the success that we've already had.

I think that pretty well summarizes it. And with that, I'll turn the discussion over to my associate Karl Mueller.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. In this morning's release, we reported that the sizable Republic's balance sheet in total remained largely unchanged from the second quarter balance, with consolidated assets reported right at $17 billion. The cash and invested asset balance of $11.1 billion is down slightly from the second quarter by virtue of several contributing factors.

First of all, as Al mentioned during his comments earlier, in July, we paid approximately $657 million to our policyholders for the settlement of all of the outstanding mortgage guaranty deferred payment obligations or DPOs. These funds had been held as short-term investments through the end of June in anticipation of the July payment. This was partially offset by the receipt of debt proceeds from the $400 million debt offering that was completed recently in the month of September.

And finally, that -- the fair value of the overall portfolio decreased slightly from the levels that were recognized at the end of June. Nonetheless, the credit quality of the portfolio remains high with an overall A rating, and this is unchanged from the most recent year-end rating as well.

As indicated in the release, investment income rose roughly 9% to $86 million for the third quarter and by 7% to $254 million for the first 9 months of 2014 by comparison to the same periods a year ago. The increase resulted from a gradual upward trend in the yield on the fixed income portfolio, coupled with the benefit from a greater allocation of the overall portfolio to higher-yielding common stocks of blue chip companies.

Consolidated claim reserves declined by approximately $613 million during the third quarter by comparison to the June balances, principally due to the payment of the mortgage insurance DPO that I just mentioned. And then on a year-to-date basis, the overall claim costs have developed essentially even with the prior year-end consolidated loss reserve balances. By contrast, the company posted a modest favorable development for the same period during the 2013 first 9 months.

The most significant contributors to this year's, what I would say, less-favorable reserve development includes the CCI claim settlement noted in the second quarter and as Al talked about earlier; and a further escalation of prior year's workers' compensation and general liability claims, also as Scott mentioned during his commentary.

As indicated in this morning's release, Old Republic recently issued $400 million of 10-year senior notes at a cost of 4% and 7% -- 4 7/8% interest. We routinely monitor a series of metrics to evaluate the sufficiency of the parent company liquidity. And as we've discussed on previous calls, we continue to maintain sufficient liquidity at the ORI parent company and noninsurance company subsidiaries to meet our normal recurring obligations, even if you exclude the most recent debt proceeds. However, over time, our liquidity has fallen short of some of our longer-term objectives. Therefore, the primary purpose of raising these funds was to enhance the parent company liquidity to provide the financial flexibility to add capital to our insurance company subsidiaries as needed and to fund other growth opportunities as they arise in the future. Until such time as these funds are redirected, the net proceeds are held in a noninsurance investment company subsidiary. And they've been deployed to earn a reasonably secure after-tax return that is in excess of the post-tax costs of the new debt.

As a consequence of this recent debt issuance, the debt-to-capital ratio rose at the end of September to 19.7%. This is still within acceptable parameters set forth by the rating agencies to support our current financial ratings. Prospectively, we still expect the $550 million of convertible debt issue to convert to common equity prior to its scheduled maturity in March of 2018 so that, on a pro forma basis, if you were to assume conversion, the debt-to-capital ratio would be reduced to 8.5% at September 30.

Shareholders' equity at the end of September was $3.9 billion or $15.16 per share, a decrease of $0.13 per share from the end of the second quarter. On a year-to-date basis, book value per share has increased by $0.52 or roughly 3.6%. And together with a book-value-based cash dividend rate of return of 3.8%, the total year-to-date book return to our shareholders amounts to roughly 7.4% through the first 9 months of this year.

Well, there are the highlights of our current financial condition, so at this point, I'm going to turn the call back to Al for any closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, again, none of us feel obviously that this is -- these are the best returns that we would have hoped to publish in this quarter or year-to-date period, for that matter, but I have to say that the clouds

are parting over Old Republic. We think that the worst of times which we experienced in the financial guaranty area in particular are over. We're certainly not staring at an abyss as we -- as all of us who are in that business faced back in 2008, '09 and '10 in particular. We think that the problems we have in general insurance, particularly in the long-tail lines of workers' compensation and general liability, are very manageable, surmountable. Just as I said and Scott mentioned before, that it's taking us a while longer to resolve, but resolve them we will. And as a result, we think that much better days are ahead for Old Republic's -- in Old Republic's future on behalf of both policyholders and our shareholders.
So having said that, we will open it up to any questions that may be out there.

Question and Answer

Operator

[Operator Instructions]

We'll take our first question from Vincent DeAugustino of Keefe, Bruyette, Woods.

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

I guess, just to start, I was hoping to revisit the workers' comp and general liability areas and just in terms of thinking about the loss cost improvement expectations. And I know nothing is going to kind of move rapidly here, but I'm kind of curious about, this quarter, what in particular in the loss costs side kind of thwarted the expectation, if we go back last quarter, for the improvement. And then maybe if we could discuss, looking out, if this a 2- or 3-quarter progression or if this is something that's going to be 1 year or 2.

R. Scott Rager
President and Chief Operating Officer

Obviously, we don't -- yes, we don't manage the business quarter-to-quarter. This has bounced around as you could see the results quarter-to-quarter as they're available. You'd see them, year-to-year, quarter-to-quarter, they kind of bounce around and do what they're doing. We think we're doing everything we need to do in terms of approaching the issues; in terms of identifying the issues, whether it be markets, coverage types, product design, whatever the case may be, but we're dealing with each of them. And we're looking at taking care of them just as quick as we can, but as you know, it's process on some of these stuff and then it's -- will take some time. I don't have -- that's all I can tell you at this point in time. That's we're working at it very diligently as hard as we can. We know what we have to do, and we're about doing that.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. To put it in context, we thought that, certainly by the end of this year, we might have had our arms around the entire set of issues that we've been facing the last couple, 3 years, but it looks like it may be a little while longer. But my gut -- our gut is that, come this time next year, we should be looking at in -- a better picture than we -- certainly than we are looking at now. So a little patience, but we'll get this thing licked.

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

Okay. And then from a premium production standpoint, I guess, on pretty much, I think, everything, with except for general liability at least for the 3 large lines of business, so auto and work comp, things were fairly strong, at least relative to my numbers. And so I guess the question there is, from a rate trend standpoint, if kind of the good result there on the top line is if we're seeing any acceleration from a pricing standpoint.

R. Scott Rager
President and Chief Operating Officer

Well, again, it -- being a specialty underwriting operation, we have units serving different specific industries with certain different coverage lines, but I can tell you that in some of those areas, we're seeing significant new business that attributes to the growth, as well as organic growth from a recovering economy in most instances. And there is rate. There is rates -- improvement in terms of enhancements toward rate. And then another instance, as you may look at it, you may see more organic growth and more rates and less new business, as we're taking care of issues that may have arisen there. So, but yes, rate is definitely a portion of the growth. It is the one common factor that goes across all lines of our operations.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

And I might add, Scott, that again particularly when you look at comp, that's such a large chunk of it in an adjustable-rate mode, whether it's through the use of retros or captors [ph] or what have you. And that's going to ultimately help the top line but more importantly the loss ratio line. So things are not as dire as they may appear.

R. Scott Rager
President and Chief Operating Officer

No.

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

Okay, so on the new business growth, I mean that's good to hear. And so just curious, from an opportunity standpoint, kind of where are you seeing opportunity for good returns on kind of some of these news -- new business pockets? And kind of what might they be?

R. Scott Rager
President and Chief Operating Officer

Well, actually, we're seeing opportunities in several levels where some of our competitors may have taken positions where they want flat increases or they want to deal with an entire book of business. That's where we're getting the most shake for the money in terms of, we underwrite our business in the specialty units, typically on an account-by-account basis. So we're getting the opportunity to look at pieces of business within those specialty operations that people have decided to either exit or to increase rate levels at a flat basis or, whatever the case may be, issue new underwriting guidelines. So we're getting the chance to look at new quality business really across all lines.

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

Okay. And then just -- Al, just with your discussion around capital. I guess the first question would be -- is, would any of that imply any opportunity to kind of extract some of the capital, as it's freed up from RFIG, kind of ahead of schedule? Or if -- should we look at the recent debt raised as just kind of saying, hey, at this point, it's just a cautionary approach, and we'll have to wait and see on when that capital from RFIG can be pulled out?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, I guess you recalled I could kind of answer that very clearly. And that is that it just -- a sort of recent event that has taken place in our mortgage guaranty business, right? It's only July 1 that we -- or thereabouts, that we paid off the DPO. And I think -- both from our standpoint and, just as importantly, from the standpoint of the North Carolina insurance department, I think all of us want to see maybe 3 or 4 or 5 quarters below our belt before we take any action in terms of capital extraction. We do think that it won't be long, but certainly, before 2022 is not inconceivable that we should be able to extract some of that capital. As to the recent capital raise, as you said, Karl, you might repeat...

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Yes. Vincent, I think we're looking at the capital that's committed to the mortgage operation to be needed in that operation for the foreseeable future. So again, to address liquidity needs of the parent company to address growth opportunities elsewhere in the business, that was really the driving force behind our decision to raise that $400 million in the form of the 10-year notes.

Operator

We'll take our next question from Stephen Mead of Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

If I could just go back to the workers' comp. And in terms of when you were talking about premium increases and also sort of the offset to the higher claims, I was just wondering whether you were getting higher increases in workers' comp in terms of pricing versus the other lines of business. And do you -- is that business in a growth mode? Or what is the approach to workers' comp from a strategic standpoint at this juncture?

R. Scott Rager
President and Chief Operating Officer

From a strategic standpoint, I would indicate that, yes, depending on the state, the geography, the operation, all those things that are attended in our specialty operations, it's safe to say that, in a general position, yes, we are getting increases on workers' compensation. It depends, again, on the operation and the individual's experience. But you might see increases, in some books, we're seeing all the way up to close to double digits, 9%. Other areas, we're seeing single digits to perhaps mid-single digits. And yes, it has grown, but the principal growth in that particular book of business in the last year has been in the loss-sensitive arena, as opposed to the rate-sensitive arena.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I think there's an important point to make and remember, and that is that, that's what we're pushing to bring. And that is to bring assurance commercial accounts, obviously, into a greater degree of partnership with us as an insurance company so that they are paying attention to loss control as much as we are as an underwriter. And we think we can best achieve that, as I say, by in fact making the insurance plans that we offer 2-way plans, so to speak, so that if the results are good, we'll give some money back. If the results are poor, we should get some money back ourselves. So the -- workers' compensation, Stephen, is a bread-and-butter business for us. We've been at it since the 1920s. And we think we know, we believe we know what the hell we're doing there. So the point is, to fine-tune it now, we've put on quite a bit of business in the last 4 or 5 years that was pretty much in the standard market area, meaning it was a ground-up exposure for us. And that's one of the things we've been trying to do, which is to move more and more of that business to an adjustable-rate fashion, as Scott mentioned. It takes time to get that thing fixed and reoriented not only geographically but also in terms of the insurance products that are offered, but we think the fix is in and that we should begin to see the results in fairly quick order. And fairly quick order, as I said before, I think, is probably by mid-year now, as best as we can tell, to begin seeing the benefits of these changes that we're making in comp in particular.

Stephen Mead
Anchor Capital Advisors, LLC

And then just on the -- your approach to the dividend, as we're still sort of in a somewhat of a transition period, but what is sort of the stated approach to the dividend in terms of what sort of relationship to earnings, what kind of growth expectation to the dividend? And what would you say about dividend at this point?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, we've always approached the dividend in terms of making sure that our shareholders get a total return on their investments. And that, as you know, means that dividend is part of that, and growth in earnings is the other part of it and growth in earnings, particularly if and hopefully if it translates itself into a higher stock price. On top of that, if we're able, as we try to raise book value, that is also helpful to the shareholders. In terms of the annual payment of dividends, we have been and continue to operate on a 10-year moving average. 10 years, to us, is a minimum cycle. We've said for years, as a minimum, you need to take a look at our business over 5-year cycles but preferably 10-year cycles. That allows us to go through the ups and downs that typically occur in all of our existing businesses now, being whether it's title or general insurance or what have you. So historically, we've paid out around 30%, 35% of our earnings or our average earnings in terms of cash dividends in the last number of years because of the issues that we've faced. Obviously, that ratio went up through the stratosphere, so to speak. And so now as time moves on and as we redress the business, you're going to see us gradually revert to this 30% to 35% level. But in the meantime, we're still going to keep our eyes peeled on this 10-year moving average, so I don't -- my guess is that it's going to take 4 or 5 years before we get to that 30%, 35% payout ratio standpoint, okay?

Stephen Mead
Anchor Capital Advisors, LLC

Yes. All right.

Operator

We'll take our next question from Christine Worley of JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

Just going back to the development in the general insurance line. What accident years are you seeing the development from for workers' comp and general liability?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Well, I think, as Scott mentioned before, we are experiencing some claims development. And it's going to be spread across multiple-year periods, but I would say, generally speaking, 2011 and prior accident years.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. Is this the first quarter that you've had development from the '11 book? Or have you previously experienced that?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I'm not remembering -- speaking for myself, I don't remember, but I think no -- I don't think we've had because that's still locked in. No, I would say it's mostly 2010 and prior...

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. And then some slight new '11 book then.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, on most [indiscernible] -- yes, '11, '12 and '13, that's right. Those are still pretty much locked into a Bornhuetter-Ferguson type of loss reserve establishment approach. So the reserve developments now occurring are clearly for the '10 and prior years.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Yes. A significant proportion is attributable to all those years.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay, perfect. Okay. And then have you moved your loss picks in those lines at all throughout the year? Have those remained fairly stable?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, the -- which years?

Christine Amanda Worley
JMP Securities LLC, Research Division

For the current year, sorry, for the current-year loss pick.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

That's -- those are fairly stable, as we look at them every quarter. And it takes a significant departure from expected. And again, expected is measured, as I say, by the zoning [ph] Bornhuetter-Ferguson type of look-see. And nothing has happened to those 3 years so far to indicate that the original loss picks or loss established need -- IBNR reserves need to be fixed. So the loss development -- as Scott mentioned before, the loss development that is occurring is driven primarily, if not exclusively, by case reserve developments. You get some allocated -- so-called allocated loss-adjustment expense emergence, but most of it is case reserves that are impacting or penetrating to a greater degree the established incurred but not reported reserves for some of those years.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. So I mean, if you -- for the '14 book, then, that you've kept the loss picks fairly stable throughout the year, it looks like the adverse has been increasing in degree as we've gone throughout this year and especially in this quarter. I mean are you guys just sort of trying to get more of a final handle? I know you said that some would probably continue to bleed through results for about the next year, but I guess I'm just trying to figure out what's been specifically driving the increase in magnitude of the reserve development throughout the year.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

It's all been case-reserve driven. And obviously, particularly in the earliest of years, as you know, what gets settled nowadays are some of your lingering hard cases. And more often than not, what has happened to us, obviously, is some of those cases have been settled at a much higher level than the case reserves that were posted on them. I mean that's been the ballgame for us: trying to get our arms around those case reserves. I think we're getting there, but you're not there until -- it ain't over until it's over. That's the best thing -- yes.

Operator

We'll take our next question from Ron Bobman of Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I just had a couple of questions on general insurance. Commercial auto, I think, is another bread-and-butter line. I was just curious how things, underwriting profitability-wise, are developing there. I don't think I've heard anyone mentioning it. And...

R. Scott Rager
President and Chief Operating Officer

Well, as you can see from the exhibit there we provided you and the financials on it, the commercial auto is principally made up of what we're writing in Great West Casualty; and some other writings throughout the entities, to a lesser degree; Old Republic Risk Management; et cetera. And they all have a bit of -- most of our writers in the commercial lines that are offering P&C coverages have some commercial loads and are focusing in that [ph]. And the experience set right now at year-to-date for 9 months benefit and claims ratio at 74.5.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

If you look at that exhibit on Page 4, I think it is, of the statistics, on our website, you'll see that the trucking business has been very stable for us. All the action has been, from a loss ratio standpoint, in the workers' comp and the general liability. General liability, incidentally, as you can also readily see, it is a relatively small line from among those 3 coverages, but it is probably the most volatile because it contains the largest number of claims that end up in the courthouse or gets settled on the steps to the courthouse. And those tend to be dicey from a case reserving standpoint.

Ronald David Bobman
Capital Returns Management, LLC

The workers' comp challenges, are those more concentrated, less concentrated in the existing Old Republic work comp book and less so from PMA, or vice versa? And I was curious, is there any sort of geographic concentration to the challenged components of workers' comp?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, from a geographic standpoint, and I think that's the way we are focused on it, the biggest problems we have are, on the 2 coasts, California and New York, New Jersey, Pennsylvania, those states, where we've got some pretty significant traditional comp business, i.e. ground-up, relatively less of it on an adjustable-rate basis. And that's where most of our difficulties are. And some of that business is just having to find a new home because it's just not easily adjustable. You've got some states, and as you know, California comes to mind where you've got very large, strong state-provided funds that act as a low-priced mechanism for comp, and that's tough to compete against. So our approach is to basically move away from some of these areas because they are not really fixable in a traditional risk transfer basis.

Ronald David Bobman
Capital Returns Management, LLC

Is -- the New York, New Jersey geography, is that PMA-centric, or no?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, no. I would say we have strong businesses in both California and New York, New Jersey and Pennsylvania. A lot of it, though, as we indicated before, is written on an adjustable-rate basis, but it's the portion that is not written on an adjustable-rate or some sort of alternative market approach that is giving us the indigestions, if you will, in both of those areas.

Operator

We'll return to Vincent DeAugustino of Keefe, Bruyette, Woods.

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

It's actually just, I guess, a clarification or helping me understand something. So on work comp, so at least from the stat data that I look at, at 12 months maturity, I was under the impression that IBNR reserves were generally around 70% of your total reserves at 12 months maturity. And so for me, I guess I would have assumed that -- with the development issues, that, that would have been more IBNR driven.

And so I just kind of wanted to at least reconcile what it is specifically IBNR versus case and why that wouldn't necessarily be the case? Because that's pending, I guess, where we would normally see the pressure would be on the IBNR side.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, I'm not sure that I follow the question, Vincent. Well, I'm looking at Karl here, but anyway, let's say this: That with respect to the current years, as you might expect -- and the current years, in our case, would be '14, '13, '12 and '11, okay? But with respect to those years, we do not seem to have any problem with either case reserves or IBNR, okay? Things have seemed to be working themselves out well. It's the earliest years. Now the earliest years, as we've said, the loss ratios are driven primarily by case reserve issues. And what happens, as you know, mechanically on the books of an insurance company is that it's got a certain amount of IBNR for olden years, right? The idea is that the older the year, the less new claims you're going to have, and therefore, the IBNR is a proxy to -- for any potential case reserve deficiency, okay? So what's happening is, when you have a case reserve development, as we have been experiencing, it eats into the IBNR level. And sometimes, it eats into such an extent that the IBNR could conceivably become negative, and therefore, you end up having to jack it up. But that doesn't mean that there's a problem with the IBNR. It means that there's a problem -- this was a problem with the case reserves. Well, yes, it's a mechanical issue, but again, the thing to remember, the thing we're trying to stress is that it's been case reserve development, for a variety of reasons, that have been driving these higher loss ratios for us in comp in particular, and GL secondarily, okay?

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

Yes.

Operator

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay, well, again, as always, we appreciate very much your interest in joining us in these conversations. And hopefully, you got some additional color, on top of the earnings release that we put out this morning.

And on that note, we'll look forward to visiting with you, and I guess it will be next year. It's January sometimes when we put out our year-end numbers, and hopefully, you'll be able to join us. And hopefully, we'll be looking at a somewhat better picture than we're looking at right now.

On that note, wish -- we wish you all a good day.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Thank you.

Operator
That does conclude today's conference. Thank you for your participation.