S&P Capital IQ

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RLI Corp. NYSE:RLI

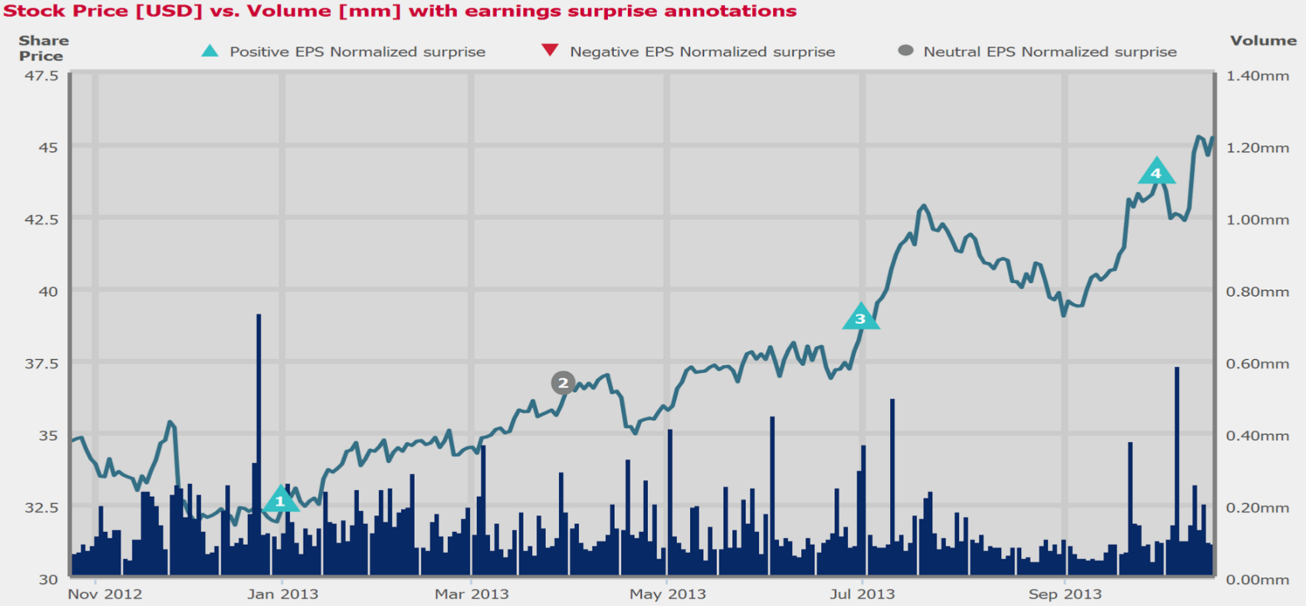
FQ4 2013 Earnings Call Transcripts

Thursday, January 23, 2014 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.51	0.72	▲41.18	0.52	2.23	2.57
Revenue (mm)	174.54	185.44	▲6.24	175.70	690.99	705.60

Currency: USD
Consensus as of Jan-23-2014 2:09 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	0.22	0.44	▲1 104.55 %
FQ1 2013	0.52	0.52	2 0.00 %
FQ2 2013	0.58	0.64	▲3 10.34 %
FQ3 2013	0.50	0.70	▲4 40.00 %

Call Participants

EXECUTIVES

Aaron H. Jacoby
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Craig William Kliethermes
President and Chief Operating Officer

Jonathan E. Michael
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Michael J. Stone
Director

Thomas L. Brown
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Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good morning, and welcome, ladies and gentlemen, to the RLI Corp. Fourth Quarter Earnings Teleconference. At this time, I would like to inform you that this conference is being recorded. [Operator Instructions]

Before we get started, let me remind everyone that through the course of the teleconference, RLI management may make comments that reflect their intentions, beliefs and expectations for the future. As always, these forward-looking statements are subject to risk factors, which could cause actual results to differ materially.

These risk factors are listed in the company's various SEC filings, including in the annual Form 10-K, which should be reviewed carefully. The company has filed a Form 8-K with the Securities and Exchange Commission that contains the press release announcing fourth quarter results. RLI management may make reference during the call to operating earnings and earnings per share from operations, which are non-GAAP measures of financial results. RLI's operating earnings are earnings per share from operations consisting of net earnings after the elimination of after-tax realized investment gains or losses.

RLI's management believes that this measure is useful in gauging core operating performance across reporting periods, but may not be comparable to other companies' definitions of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings. The Form 8-K and press release are available at the company's website at www.rlicorp.com.

I will now turn the conference over to RLI's Vice President, Corporate Development, Mr. Aaron Jacoby. Please go ahead, sir.

Aaron H. Jacoby
Vice President of Corporate Development

Thank you. Good morning to everyone. Welcome to the RLI Earnings Call for the Fourth Quarter of 2013. Joining me on today's call are Jon Michael, Chairman and CEO; Mike Stone, President and Chief Operating Officer; Tom Brown, Vice President and Chief Financial Officer; and Craig Kliethermes, Executive Vice President, Operations.

I'm going to turn the call over to Tom first to give some brief opening comments on the quarter's financial results. Then, Mike and Craig will talk about our operations and market conditions. Next, we'll open the call to questions and Jon will finish with some closing comments.

Tom?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Great. Thanks, Aaron. And good morning, everyone. We are pleased to announce another solid quarter and an excellent finish to the year.

Starting with our most important metric, the combined ratio. We posted an 82.4 in the quarter, which allowed us to finish the year with an excellent 83.1 combined ratio. This marks the 18th consecutive year of underwriting profit and, as Jon pointed out in the press release, the ninth straight year below 90.

While continued favorable development contributed to this outstanding result, $15 million in the quarter and $70 million on the year, so too did our core underwriting discipline and benefits of prior rate increases, which led to improved current accident results, particularly in our casualty segment.

Turning our attention to premiums. Gross premium was up 5% in the quarter over last year and 15% on a net basis. For the year, gross premium grew 7%, while net premium's faster growth rate of 12%

was driven largely by our strategy to purchase less reinsurance, as well as some mix changes within our product portfolio.

Digging into our 3 segments, casualty premium continue to lead the way, up 10% for the quarter on a gross basis and 24% on net basis. The gross increase was driven by product -- new product initiatives, as well as certain products achieving both rate and exposure growth. The higher net premium growth was driven by less reliance on reinsurance, as previously mentioned. The impact of both increased prices, as well as improved loss experience, led to a decrease in our casualty booking ratio. In line with the impact of favorable reserve development, casualty reported a very nice 82 combined ratio in the quarter and 83 for the year.

Our property and surety segments were also strong contributors. Sureties' growth premium -- gross premium was relatively flat in the quarter, while property was down slightly, but both turned in excellent combined ratios: property at an 85 and surety at a 79, both in line with full year results as well.

Turning to investments, there were few positive trends in the quarter. Although investment income was down due to continued low reinvestment rates, both the bond and equity portfolios turned in positive total returns for the quarter. In addition, our equity investment in Maui Jim continued to add favorably to earnings, contributed positively to earnings in a cyclically slow fourth quarter. While on a full year basis, earnings were up a strong 23%.

The combination of underwriting and investment results drove operating earnings per share of $0.72 per share, a figure which is adjusted for the two-for-one stock split last week. For 2013, operating earnings per share was $2.57 per share, up 28%, which drove book value per share growth of 15%, inclusive of dividends for the year.

With that, I will turn it over to -- this discussion to Mike Stone.

Mike?

Michael J. Stone
Director

Thanks, Tom. Good morning, everybody. An excellent quarter, an excellent underwriting quarter even by our standards as we continue to grow our business. Our combined ratio was 82, as Tom said, for the quarter and our gross written premium was up 5%.

I'm going to talk a little bit about what we're seeing in the marketplace, then Craig Kliethermes will go into more detail on rates, reinsurance, renewals, our growth initiatives. Craig is our Executive Vice President of Operations, a heavily credentialed actuary with encyclopedic knowledge of insurance and risk management, and he will provide some good insights as we talk further.

In our Casualty, as Tom talked about, our gross written premium is up some 10% in the quarter. Our commercial umbrella business continues to grow nicely in selected markets, with the gross written premium up some 16% in the quarter and 13% in the year.

The rates are also up nicely, as we continue to see opportunities for buffer layer excess and first-layer excess where traditional markets have exited. Our primary liability business, general liability, which is our largest product line, gross written premium was up 4% in the quarter but down 11% in the year. So much for the deceleration, as we have managed to re-underwrite our habitational business and yet continue to grow other more attractive classes.

Actually, last year at this time, our habitational business represented some 15% of our casualty business. It's only 7% this year and it was about half of our general liability business, and it's only 25% this year. So we're building a better book of business as we move forward.

Our transportation business flattened out a bit in the quarter, but its gross written premium was up some 55% for the year. And we continue to grow our professional liability admitted package business, with growth up some 35% for the year. And our nicely performing personal umbrella business grew a bit this year, up some 3% for the year and 2% for the quarter. Overall, casualty market is still in reasonably good times.

Property, a very light cat year, to state the obvious. Combined ratio was 85 for the quarter, 86 for the year and it compares favorably to 2012 where they were 99 and 94, respectively. Obviously, Sandy was in those numbers.

Our gross written premium was down 5% for the quarter and 2.5% for the year. Competition in the cat business continues, but we will compete and we have a solid place in these markets, having been through many events and continue to find solid, reliable capacity through our brokers and customers.

With reinsurance renewals positive for the markets, we would expect this segment to continue to be competitive. We have the underwriters, products and relationships to continue to compete and to outperform in this segment.

Surety, gross written premium, essentially flat for the year and the quarter. And as I've talked in the last couple of quarterly teleconferences, this market segment is very competitive, and we have an increasing number of competitors in this space. As a result, some terms and conditions are under pressure. For example, personal indemnity being waived; some collateral requirements being waived; and underwriting discipline, lacking in some areas.

We've got the right products and people here. We've been in this business for a long time. We'll be able to compete, but we will also continue to maintain our underwriting discipline here.

Overall, a very good quarter, a testament to our underwriting teams and support. We go into 2014, well positioned to continue our outperformance, as the market is still reasonably attractive for our products.

And Craig will add a little color.

Craig William Kliethermes
President and Chief Operating Officer

Thank you, Mike, and good morning. I want to talk briefly about our ceded reinsurance placements on 1/1.

As many of you know, we placed about 1/2 of the reinsurance we buy on 1/1, including our largest casualty treaty and our catastrophe treaty that we purchased. Last year, the theme was -- we decided to restructure our casualty reinsurance to maybe eat a little bit more of our own cooking, as Tom referred. That contributed to our net written premium growth in 2013. This year, we would say the theme was more around the buyer’s market. We -- I think I would describe it as pretty soft. Rates were down about 10% to 15%, which translates into about $10 million savings, which should drop directly to our 2014 bottom line. Our retentions and capacity purchase were essentially unchanged, with only small changes on the margins.

Aaron H. Jacoby
Vice President of Corporate Development
Great. Thanks, Craig. We can now open the call up for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Randy Binner with FBR.

Jason Matthew Oetting
FBR Capital Markets & Co., Research Division

This is Jason Oetting on for Randy this morning. My first question is just to clarify on the retention that was mentioned towards the end of the commentary there. Just to be clear, should we assume that it's going to remain stable relative to 2013?

Craig William Kliethermes
President and Chief Operating Officer

Relatively stable, yes. There were slightly bigger retentions in workers' comp, but we also brought more on the top. So effectively, that was unchanged. Our risk profile across -- the risks were essentially unchanged across all of our products.

Jason Matthew Oetting
FBR Capital Markets & Co., Research Division

Okay, fair enough. I just wanted to make sure that I understood that. And then turning to the property segment, the underlying loss ratio there was a bit higher than we had modeled and, I guess, also a bit higher relative to the average of the first 3 quarters. I was just wondering if you could give a little bit more color there, maybe if you could talk about the specific product lines within there as well. For example, are you seeing any improvement within the marine segment yet?

Michael J. Stone
Director

This is Mike Stone. The marine improvement, it seems like it improves for a bit and then we have a few shock losses and it goes back. So I think the loss ratio, which is probably driven by a bit of a marine and probably some prop increase in the fourth quarter.

Jason Matthew Oetting
FBR Capital Markets & Co., Research Division

Okay, that's helpful. And then I guess lastly, could you just comment on the E&S pricing and overall competitive environment?

Michael J. Stone
Director

Yes. This is Mike Stone again. E&S is competitive. But as I think we talked about -- a little bit about rates, our rates have continued to improve. And we have been able to successfully re-underwrite our book of business and general liability without much deterioration in the top line. And we see pockets of pretty strong opportunities, as I talked about, the commercial umbrella. But there's other area -- and transportation has been pretty good for most of the year. So I think casualty E&S is still good. Not great, it's good. And if we talk about property, property is -- if we talk about E&S is heavily cat, and cat is under pressure. The good thing about our position is we've been in these businesses for a long, long time with deep experienced underwriters, who know their products. They have great relationships with their brokers, and we're able to manage through this. Obviously, if it continues to deteriorate, as some people predict, and I'm not sure that's the case, by the way, we'll remain disciplined. We'll walk away from business, as we have in the past, as we manage our exposures and as manage our underwriting profitability.

Jason Matthew Oetting
FBR Capital Markets & Co., Research Division

Okay, that's helpful. And then really quick, given Berkshire's presence this year, are you starting to see any indirect impact on the smaller case market?

Jonathan E. Michael
Chairman and Chief Executive Officer

63, 42, 97, Omaha. Go ahead, Mike. You can...

Michael J. Stone
Director

I think I'm going to Wes Welker here, I believe. So we still haven't seen much of Berkshire, especially they're still in higher premium items, larger accounts. Obviously, it forces other people down into our space. So we feel it indirectly. But thus far, they haven't been an impact here. I'm not going to say they haven't been an impact, so -- but they've -- we really haven't felt them. I would expect as the year progresses and they continue to add people and add products, that we'll encounter them. But there's a lot, a lot of competition in our space. One new entrant, even though a big 1 with a very quality name, they don't have any pricing power either. So it's another competitor. Thus far, we really haven't encountered them in a significant way.

Operator

[Operator Instructions] And we'll go next to Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

If you could clarify your reinsurance plans because I think in the prepared remarks, you said that there was 10% to 15% savings and then you said that the retention is largely unchanged?

Craig William Kliethermes
President and Chief Operating Officer

That's correct. The rates were -- effectively, the rates were down 10% to 15%, which should result in about $10 million to $11 million savings overall, with essentially the same retentions. I mean, the retention on workers comp that I mentioned -- I mean, workers comp is a very small business for us, a couple of million dollars. So that really didn't move the dial much.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So the retention you talk about is ratio of net to gross premiums?

Craig William Kliethermes
President and Chief Operating Officer

I'm sorry, I was talking about the loss retention under the profile -- under the reinsurance structure that we bought. So our net to gross number, I'm guessing won't move much from this year. Annual growth could slow down some because of the rate reduction, clearly, but not because of a change in our retention -- our loss retention.

Jonathan E. Michael
Chairman and Chief Executive Officer

Our spend, our reinsurance spend will be $10 million to $11 million less than last year because of it, because of the [indiscernible]

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Is there any change in seating commission levels?

Craig William Kliethermes
President and Chief Operating Officer

I think it might have been 0.5 on our umbrella business -- improvement.

Operator

And we'll go next to Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions related to the casualty business. Your overall gross written premium was up about 10%. If you were to characterize that, what proportion of the growth was kind of new business-driven and what proportion was really pricing-driven on existing business?

Craig William Kliethermes
President and Chief Operating Officer

Well, I mean the price on our the casualty portfolio overall is about 5% for the year. So the balance would be changes in exposure or on existing businesses, and then we have fairly significant investment in new products in our casualty business. So obviously, those are new exposures. It's hard to measure year-over-year price as they're new to us.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Got it. Okay. Within the commercial umbrella line, you mentioned 16% growth in the quarter. Was that mostly new business-driven? Or is that exposure units?

Michael J. Stone
Director

For the quarter, it's basically all price.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

All price? Okay. And lastly on the reserve releases, obviously mostly casualty. In the past, you've kind of indicated what level, what accident years were most involved. Could you provide that same detail?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Sure, Mark. It's Tom Brown. Glad to. In the casualty, it's largely GL umbrella and then some of the package businesses and the accident years are basically 2009 through 2012. And then, as you said, property surety a little more modest by comparison. Property is marine, a little bit of a release on Sandy last year and that's 2010 and the 2012 accident years. And then surety is almost exclusively '11 and '12.

Operator

We'll take our next question from John Thomas with William Blair.

John Thomas

I was curious what you think about the transportation market? And is the rate that you're getting making the business currently profitable and where do you see heading into next year?

Michael J. Stone
Director

This is Mike Stone. First, we think the business is profitable. Historically, our business has been profitable. And we've been in the business for 15, 16, 17 years in long-haul trucking, buses, commercial auto. So we have an excellent track record. We understand the business. We have experts that are underwriting it, focused solely on transportation, who've been in the business a lot longer than we've been in the business. And it's been a good year for transportation.

Obviously, if you've seen the companies that have encountered difficulties, most of them have had trouble, among other things, with their transportation book of business, where their business was underpriced, and we knew it. Our prices typically don't vary as much. We -- our premium will vary. We'll lose business if we can't get the price and we'll gain business if we can. And we sell service, we sell expertise and we sell a solid, consistent market presence. And so we have good relationships with our brokers.

And so we've had an advantage this year because we've been open for business. We've been able to increase rates on previously -- probably underpriced business coming from other companies. And we also don't -- it's not a huge book of business. It's $65 million or so. So quarter-to-quarter, it's -- you might miss out on a large account and therefore, your quarter-to-quarter comparison will be not favorable. But -- so the fourth quarter was flat, but overall, we think it's a pretty good market for transportation. We've got a number of competitors that have exited and we're open for business and I think 2014 should be pretty good.

John Thomas

All right. And then the casualty accident year loss ratio x cat. In the first half of '13, it was materially higher than the second half. Why do you think the claim experience is much better than you initially expected in the beginning of the year?

Craig William Kliethermes
President and Chief Operating Officer

John, this is Craig Kliethermes. I mean, we had talked about our habitational experience for quite some time and we've spent a lot of time rehabilitating that book of business. And we saw significant improvement in our current accident year loss ratios from the businesses we exited, in addition to the price that we achieved on that portfolio. And that portion of the overall portfolio for casualty has shrunk dramatically by a factor of half, half of what it was.

Operator

We'll go next to Ken Billingsley with Compass Point.

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

Just a question on investment -- your investment portfolio with interest rate expectations. Are you guys making any changes in plans for 2014 and going into 2015?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes. It's Tom Brown. I think you'll see in the quarter itself, reinvestment deal is in the mid-3s, and that's largely driven -- we've pushed a little harder into munis. In terms of an allocation, that will be a tax-effective basis. I think your question, it goes into '14 and '15, if I heard you correctly. We're staying pretty much, what I'd say, sticking to our knitting. But we always look at and evaluate other opportunities out there. Duration is maintained pretty much in the 5-year range, so we're pretty consistent in that regard, and that's been a long-term investment strategy. So I wouldn't anticipate anything too significant.

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes. I mean, our -- Jon Michael. Our investment strategy is for the long haul. We've always -- I mean, for a long time have had in 80/20 allocation between fixed income and equities and I don't see that changing a whole lot. We'll make minor modifications around the edges, but -- and I won't see that, I don't see that changing too much. And our duration is, yes, it's a little long right now at 5, and we typically are in that 4 to 5 range to match our insurance portfolio. So I don't see that changing too much.

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

All right. And so even if rates rise, you would not necessarily shorten the duration?

Jonathan E. Michael
Chairman and Chief Executive Officer

Well, I think that will be a national thing that will occur, yes.

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

But you -- well, I was just wondering if you would keep the same duration as rates rise, looking out over the next 2 years.

Jonathan E. Michael
Chairman and Chief Executive Officer

It's going to -- it's been -- historically, I think, we've been about 4- and 6-year duration. So honestly, Ken, I think you could see it shorten a bit. But again, we've been in a pretty tight band for a number of years.

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

And last question I have, specifically on the DIC business and the California earthquake. Is there an opportunity for sales growth there? Or from a diversification -- are you guys where you want to be? Or is there an opportunity to maybe push more sales as -- I've seen some articles where it seems like California is trying to encourage more buyers in that market.

Michael J. Stone
Director

Ken, it's Mike Stone. I think a lot of that is over personal lines, we don't write any personal lines, it's all commercial lines. We're basically happy with where we are relative to exposure. Obviously, we like to get more premium for the exposure. But our premium is pretty flat to down just a little. So I would suspect that you wouldn't see -- you won't see much growth here unless something happens. And it doesn't mean there has to be an earthquake, but something happens in the property space that would cause rates to move forward. Otherwise, I think you'll see us steady. We're at about the exposure level that we want to be, given the price and where we are in our cumulations.

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

And you are correct, the article is mostly focused on the personal line side, but the percentage of the coverage is really low. Is there a lot less opportunity for growth, just in general, on the commercial side, people that are without coverage?

Michael J. Stone
Director

Well, certainly, Ken, there's a large percentage of commercial entities that don't buy earthquake as well, but not to the level that -- of personal lines because the banks will require commercial lines of customers to buy, and it's not -- which is not the case in the mortgage space. So yes, there's certainly opportunity. But as you get farther and farther away from an earthquake, the thought of an earthquake gets dimmer and dimmer and particularly, dimmer and dimmer in people's minds that have to spend their own cash to pay the premium. So I would suspect that you won't see a lot of demand-driven opportunities until there's some event, albeit small, so -- but I think until we see something like that, I doubt that you'll see, without some other exogenous factor, which I don't know what that would be, to drive demand.

Operator

We'll go next to Kevin Shields with Pine River Capital.

Kevin Shields

I had 3 questions for you this morning. On the first one, I wanted to come back to crop insurance. And could you give us the premiums earned and combined ratio for the quarter and for the full year?

Jonathan E. Michael
Chairman and Chief Executive Officer

Give us a minute to get that, if you would, Kevin.

Michael J. Stone
Director

Kevin, that was crop with an O, right?

Kevin Shields

For crop insurance.

Michael J. Stone
Director

Yes, okay.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

All right. Kevin, for the full year, a little over $53 million. And for the quarter, very low, yes, because this is a very seasonal business. It's just slightly over -- almost $2 million for the period, pretty flat, if I hit the right number.

Kevin Shields

I'm sorry, that was $2 million for the quarter?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, in combined ratio.

Michael J. Stone
Director

$112 million?

Craig William Kliethermes
President and Chief Operating Officer

Yes.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, combined ratio for the year was $112 million, Craig?

Craig William Kliethermes
President and Chief Operating Officer

$112 million, $112 million.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, we did some development in the fourth quarter on that.

Kevin Shields

That was for the full year?

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes, $112 million for the full year.

Craig William Kliethermes
President and Chief Operating Officer

$112 million for the full year.

Jonathan E. Michael
Chairman and Chief Executive Officer

And we had a development in the fourth quarter.

Craig William Kliethermes
President and Chief Operating Officer

Fourth quarter.

Kevin Shields

Okay. My second question was around paid losses and it looks like you've -- they've been really well behaved for the quarter and for the year. I was wondering if you could provide any color around paid loss activity and if there's any unusual activity in the year one way or the other.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Okay. I don't think there's anything unusual. In the fourth quarter year last year, we did have Sandy. And as you know, cats tend to pay out fairly quickly. So there's probably a little more activity into 2012 fourth quarter than in comparison to the current fourth quarter. But I'm not sure if I can think of anything more specific than that.

Kevin Shields

Okay. And my last question would be -- if you could provide the year end IBNR?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

We may have to take that one off-line, I don't think we have that at our fingertips here. You're looking for the breakout of the IBNR and the total carried reserves?

Kevin Shields

For the net reserves? Yes.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Not sure. I think if my memory serves me, it was 45%. But that's just totally off the top of my head without any numbers in front of me.

Operator

We'll go next to Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

I just wanted to drill down a little bit more into market conditions. I believe you said that they were still pretty favorable. But curious, fourth quarter versus third quarter, as it's now started to become more competitive, given that we are in the third year of year-over-year increases? Plus the second question on that would be on the E&S market. I was curious whether the standard market is now beginning to pull back less, given that most of the business is now being adequately priced.

Michael J. Stone
Director

Yes, it's Mike Stone. Yes, we think that the casualty market is still reasonably good. Is it as good as it was 1 year ago? It depends on the product. But overall, we think it's still pretty good. I think we said our rates are up some 5% for the year and we grew 10%. That's pretty good in these times. E&S, standard lines, again, there's hardly a bright line that can be drawn. People are around the edges. Yes, I think the standard line guides are in our space and -- but there's an awful lot of competition there. So if Travelers takes an account as opposed Axis taking an account, it doesn't much matter to us. And I think relatively, we don't feel the standard lines carriers are any deeper in our space today than they were 1 year ago.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. And then the last point was on the casualty market. You mentioned that rates were down, I believe, about 10% to 15% on the reinsurance side. Curious as to whether you think that will have an impact on pricing and the primary insurance in the future.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Undoubtedly. We're not -- we're pretty. We're just not -- we're not as pretty as we think we are.

Operator

We'll take a follow-up from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

[indiscernible], if I can. One, Mike, I think you talked about the terms and conditions changing in the surety market. Is that true for RLI or is that just a market observation?

Michael J. Stone
Director

No, Meyer, I think I said we're going to remain disciplined. I won't say we never waived personal indemnity or we never ask for a collateral when we asked for it 1 year ago. But by and large, our underwriting discipline remains the same. We're not going to chase accounts that we think need personal indemnity or need some level of collateral or walk away from underwriting discipline just because the market is doing it. So I think the story in surety is there's just increasing number of entrants into the space.

I think somebody has looked at some numbers and said it must be easy. I can just tell you that it's not and these things usually end badly for those people that come in uninitiated and undisciplined. And I don't wish bad on anybody, but I suspect that that's what will happen. But no, we're not -- we are not doing it. We -- obviously, we see the competition. Another issue is commission. So what usually happens is commissions start moving up as well. And in some areas, we'll move up commissions if need be for the right accounts, but we're not doing it across the board.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. No, that makes perfect sense. I just wanted to make sure I got that right. Second question, if we look specifically at the other insurance expense ratio within the expense ratio, that seems to have ticked up compared to other year-to-date or third quarter numbers. Anything unusual in the quarter?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Meyer, if I -- it's Tom Brown. Your observation is correct. Much of that is driven by profit-sharing bonuses at the year end. As you know, the quarter was pretty strong and particularly, there's a -- part of that is the equity, and like we said, a good run in the fourth quarter. So that's kind of the chief driver. And there's just some various and sundry other noise in there that hit some nonrecurring expenses, but nothing of note. Nope.

Jonathan E. Michael
Chairman and Chief Executive Officer

Variable comp drove that, Meyer.

Operator

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

Jonathan E. Michael
Chairman and Chief Executive Officer

Well, thank you, all, for joining us. Once again, we're quite sanguine about the market and we did have an excellent quarter, producing our ninth consecutive year of under 90 combined and our 18th consecutive year of profitable underwriting under 100. I think that is an unbelievable result, speaks to our underwriters, speaks to our discipline. In fact, it's our discipline that differentiates us. Enjoy the Super Bowl and we'll talk to you next quarter.

Operator
Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 with an ID number of 1060099. This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.