S&P Capital IQ

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RLI Corp. NYSE:RLI

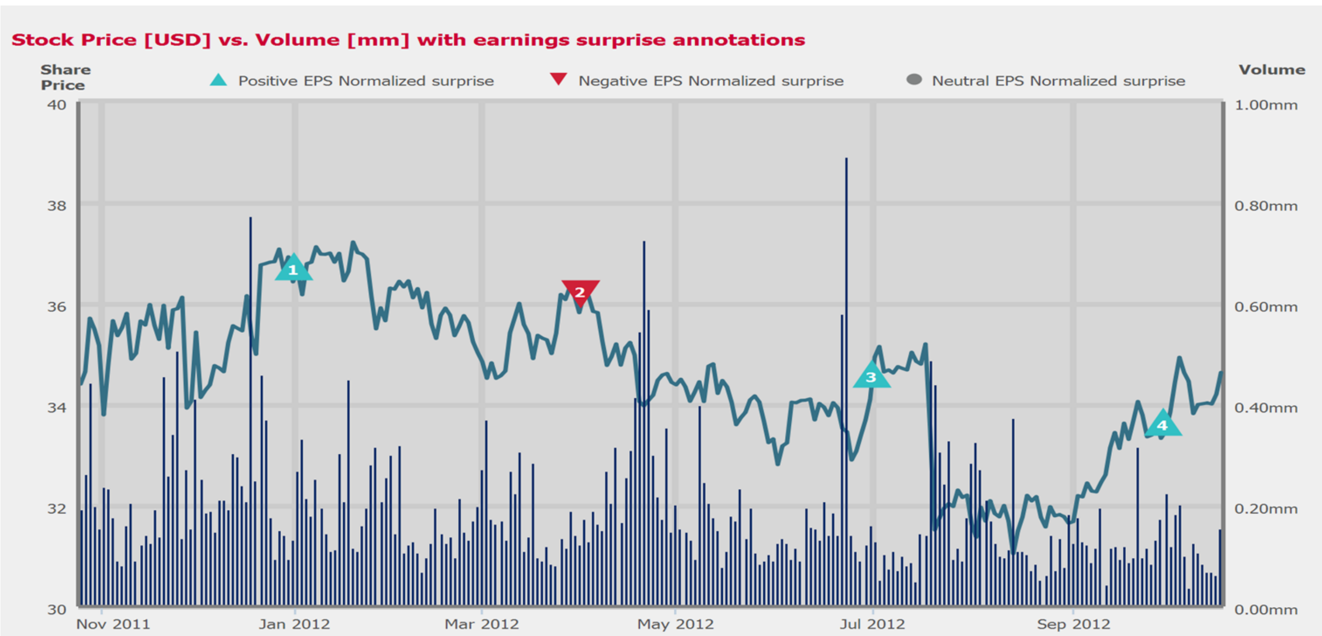
FQ4 2012 Earnings Call Transcripts

Thursday, January 24, 2013 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.22	0.44	▲104.55	0.50	1.80	2.01
Revenue (mm)	162.56	171.39	▲5.43	164.81	645.44	660.77

Currency: USD
Consensus as of Jan-24-2013 2:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	0.55	0.68	▲1 23.64 %
FQ1 2012	0.53	0.48	▼2 (9.43 %)
FQ2 2012	0.57	0.58	▲3 3.51 %
FQ3 2012	0.47	0.51	▲4 8.51 %

Call Participants

EXECUTIVES

Aaron H. Jacoby
Vice President of Corporate Development

Jonathan E. Michael
Chairman and Chief Executive Officer

Michael J. Stone
Director

Thomas L. Brown
Chief Financial Officer and Senior Vice President

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Court Dignan
Fidelity Investments

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Randolph Binner
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Raymond Iardella
Macquarie Research

Ronald David Bobman
Capital Returns Management, LLC

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good morning, and welcome, ladies and gentlemen, to the RLI Corp. Fourth Quarter Earnings Teleconference Call. 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 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 certain 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 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 and earnings per share from operations consist of net earnings after the elimination of after-tax realized investment gains or losses.

RLI's management believes this measure is useful in gauging core operating performances across the 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 in the company's website at www.rlicorp.com.

At the request of the company, we will open the conference for questions and answers following the presentation.

I will now turn the conference over to RLI's Vice President of 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 2012.

Joining me on today's call are Jon Michael, Chairman and CEO; Mike Stone, President and Chief Operating Officer; and Tom Brown, Vice President and Chief Financial Officer.

I'm going to give some brief opening comments on the quarter, then turn the call over to Mike to talk about our operations and market conditions. Then, we'll open the call for questions and Jon will finish up with some closing comments.

From our perspective, a good quarter to end a good year. The combined ratio in the fourth quarter was 94.3%. This, in spite of Hurricane Sandy losses, which so far have come in at the bottom end of our previously announced range of $13.2 million in considering the offsetting effects of bonus and profit sharing items.

Also in the quarter, $7.5 million of favorable reserve developments.

From the premium perspective, we achieved growth of 11%, most of which came organically. Growth was achieved in each segment, but was particularly robust in Casualty, which was up 19%. All of this drove operating income of $0.89 per share in the quarter.

As this wraps up the year, this is also a good opportunity to point out some annual highlights. These included an 89% combined ratio, a 17th consecutive year of underwriting profits and 12% growth in premium.

From an investment perspective, we achieved a full year of total returns of 7.5%, although investment income continues to trend down mostly due to lower reinvestment yields. At year end, our market yields stood at 2.1% with duration at 4.9 years.

We finished off the year paying $5 per share of special dividend, which returned $106 million to shareholders in addition to the $26 million of ordinary dividends paid. Including these dividends, book value per share advanced 17%, a function of both strong underwriting and investment gains.

All in all another good year. And with that, I'll turn the call over to Mike.

Michael J. Stone
Director

Thanks, Aaron. Good morning, everybody. I think a very good quarter under the circumstances and a good year in a difficult environment. Our underwriting results continue to outperform the industry. In this prolonged soft market and tepid economy with the weak demand, a little or no exposure growth, but we continue to outperform, we continue to find new opportunities and continue our underwriting performance.

Combined ratio of 89% for the year and 94% for the quarter, even with Sandy, some $15 million of loss from Sandy. Our second largest net CAT event in our history.

We grew our premium -- our gross written premium by 11% in the quarter and 12% for the year. We are seeing our rates move up and seeing some momentum develop. We are cautiously optimistic as we go forward on the rate price front. Our excess and surplus lines -- casualty business, primary liability and umbrella -- and our Marine business are experiencing high single-digit rate increases, so we see some momentum there.

Property rates are essentially flat, although we did get significant increases on the win exposed business in 2011 and we're retaining that on as renewals come through.

We're not seeing much rate movement as a result of Sandy except in the marine marketplace of those who experienced a very significant loss from Sandy.

Transportation rates are moving up, but more moderately, 5% or so, but there's some signs of optimism here.

Our product head was in -- taken ahead as recent convention and the brokers actually bought. That's probably a better tell-tale sign of market change, market firming than all the precise rate change numbers that you receive from others. But I think that bodes well for Casualty business going forward.

And our Casualty business continues to grow nicely, up 19% in the quarter, 20% for the year, with excess in surplus lines: casualty, professional, transportation and CBIC, our relatively recent acquisition leading the way.

Gross written premium growth, good momentum going into 2013.

Our Property business growth was more moderate. Moderate at 4% for the year and 3% for the quarter.

Our Catastrophe business is basically flat as we continue to manage our exposures. And as you saw in our experience with Sandy, it demonstrates that we are very diligent at managing our CAT.

Surety business: premium up 2% for the quarter, 7% for the year, combined ratio at 81% the quarter and 75% for the year. Excellent performance by any measure. The diversification in this segment has worked well as our miscellaneous, commercial and energy offset the more difficult contract business.

Our new ventures: RV, recreational vehicles; security guards; Rockbridge, the medical malpractice business that we purchased late last year, are off to a good start. Wrote some business in the fourth quarter and we expect growth from these endeavors in 2013.

At 1/1, we renewed our major property and casualty treaties, the insurance treaties. Property was basically flat both price and terms.

Casualty increased -- we increased our retention by a little bit more than 5% and expect to retain an additional $25 million or so in premium in 2013.

We have excellent momentum as we move into 2013 and we are cautiously optimistic on pricing, expect nice gross written premium both organically and through our new initiatives.

Good quarter, good year. That's all for me, Aaron?

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

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Randy Binner with FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

So I'm just kind of looking for some more commentary here on E&S. I think you mentioned kind of that, that is one of the bullet points and the broadly more optimistic outlook on pricing, but if you wouldn't mind kind of giving more color on what you're seeing out there. If you're seeing more kind of traditional admitted carriers migrating out of E&S? If small business creation is giving a tailwind there, kind of the better economy is giving them a tailwind? Just kind of more interested in your look on E&S.

Michael J. Stone
Director

Yes, Randy, it's Mike Stone. I think standard lines companies aren't leaving the space but certainly some of them are pulling back a bit, which is beneficial to the E&S -- the traditional E&S players like us. So we're seeing -- we are seeing more opportunities. Our submission counts are up across those businesses and we're seeing some rate improvement. The economy is really kind of a mixed bag. Some places are doing better than others. I'd say the Northeast is a bit better, and will probably be a bit better given Sandy with construction activity in 2013. But the Southeast is still moribund. The West Coast is a little bit better. So all in all, I'd say a mixed bag on the economy. Rates are moving up, which helps us. And I'd say the standard guys are very much occupied on the standard line business so they're not as active in our space, but they're still there. We've got plenty of competition, Randy.

Randolph Binner
FBR Capital Markets & Co., Research Division

Right, I appreciate that. And then I guess, just on the casualty -- I mean a little bit to segue from the E&S pricing getting better, but in particular, the casualty. I guess, my basic question is like why do you think pricing is better? I mean, is it discipline, really, around low-interest rates? That's been a concept I've kind of had difficult time coming around to, that people would be that disciplined. Or is it following higher loss trends? What do you think is driving the market to be a little bit more disciplined on casualty pricing?

Michael J. Stone
Director

Well -- this is Mike Stone, again. I think some of it, you have seen some pain in the marketplace. Some companies have gotten in a bit of trouble. Certainly, rates have gone down for a prolonged period of time, what, 5, 6 years and people are starting to feel the effects of that. We're starting to see reserve releases to be certainly less robust than they have been in the recent past. You take all that together and people are able to push some rate.

Operator

We'll take our next question from Ray Iardella with Macquarie.

Raymond Iardella
Macquarie Research

So just wanted to maybe touch on some of the Surety business and maybe talk about the trends you're seeing there just on the contract side. I know it's a little bit unfavorable development in the quarter.

Michael J. Stone
Director

Yes. Mike Stone, again. Actually, we've been working hard on our contract business over the last 18 months to 2 years. Obviously, in a difficult economy, the surety business is tough. It's better this year than it was last. I think we're making progress in that business, getting rid of the bad performing business, bad performing agents and concentrating our capacity in the better performing areas. So we've got good diversification. Contract makes up 25% or a little bit less than that of our overall Surety business. The other businesses are less cyclical from an economic perspective and tend to be lower-loss ratio businesses, high-expense ratio businesses, where our technology and our agency force and our time in the business give us a bit of a competitive advantage. So we still like the contract business, it's a long-term, but it's much more cyclical than the other.

Raymond Iardella
Macquarie Research

Okay. No, that's certainly helpful. And anything you can quantify in terms of particular accident years? Is it the 2011 accident year that you saw a little bit of unfavorable on?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

This is Tom Brown, Ray. Yes, it's the 2010, 2011 accident years of contract surety. It's a little unfavorable though, about $2 million and it's offset actually $1 million on miscellaneous.

Raymond Iardella
Macquarie Research

Okay. No, that's helpful. And then maybe Mike, can you maybe touch on the ProAg, that treaty as I guess it renewed in 1/1?

Michael J. Stone
Director

Yes, it renewed in 1/1. There's a few bits and pieces that needs to finalized, but basically it's done. Yes, we're going to take a little bit of additional risk in 2013. We'd expect our premium to be up a bit. Certainly, our net premium to be up a bit in 2013 as we add additional risk there. So we expect ProAg to grow a bit. So overall, we would think our premium would be up in 2013.

Operator

[Operator Instructions] And we'll go to Meyer Shields with Stifel Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

First, I need to clarify something because I'm not sure I understood it. When you talk about retaining about $25 million more of net casualty premium, is that solely the impact of the reinsurance adjustments? Or is some of that just growth that you had on a year-over-year basis on gross premiums?

Michael J. Stone
Director

No, that's -- Meyer, this is Mike Stone. That's just the reinsurance. So to the extent that we grow, in addition to that -- I'm just kind of looking at last year's premium, 2012 and saying if that came in the same, we'd keep $25 million more premium. So give or take, depending on what the volume actually does and what the mix actually is, it's kind of hard to get a precise number. I'm just trying to give you some flavor there but it's about 5% more, if you will.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

That's perfectly helpful. Should we expect -- let me start again. In the first quarter of 2012, you saw a much stronger property, gross-written premium growth than in the rest of the year. Is that a function of the fac business?

Michael J. Stone
Director

It's Mike Stone again. Some of it is probably crop, because that's where -- most of our crop business comes in the first quarter. And also rates were going up quite a bit last year. So we were still getting a feel for that.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And last question if I can. If we look at the annualized yield, not on a year-over-year basis but sequentially, it got a little bit better in the fourth quarter compared to the third. Is the shift to munis and sort of that negative year-over-year impact, has that basically washed its way through?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Meyer, it's Tom Brown. Yes, you've seen throughout the year a slight decrease in the allocation to municipals. That will have a -- say, but it will have an, actually, reduction on a pretax or an after-tax basis, it will actually improve that.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. Is there still likely to be a downdraft in 2013? On a pretax basis, I mean?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, I think you'll see a little bit of that again. It will -- some of that will be offset in the effective tax rate. In the current market yield is about 2.1, and hard to say where the rates are going to go but it can't get too much lower. We do have around $150 million that will mature in the course of 2013.

Operator

You will continue on to Court Dignan with Fidelity.

Court Dignan
Fidelity Investments

I was wondering if you could tell me or approximate the new money yield that you guys are getting in fixed income and whether we should expect sort of ongoing sort of 20% of the portfolio to be into equities?

Jonathan E. Michael
Chairman and Chief Executive Officer

The first part, I think -- now is your first name Court? I apologize, I didn't catch your name.

Court Dignan
Fidelity Investments

I was just wondering the new money yield for the fixed income portfolio?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, the fixed income in the new money is about 2.4%.

Court Dignan
Fidelity Investments

Okay, on a pretax basis, right? And then should we expect incoming cash flow to be split roughly 80-20 with the 20 being equities?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes. Our long standing policy has been about a split of 80% fixed income, 20% equities and we would not anticipate that changing.

Court Dignan
Fidelity Investments

Okay, great. And then I just noticed the -- I was looking at it briefly, the action in your loss ratio looked like it deteriorated a little bit year-over-year. Is that just explained by the disproportionate growth in the casualty segments versus property lines?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

You might have to help us here. Where we improved slightly, which -- are you looking at a specific segment?

Court Dignan
Fidelity Investments

I was looking at the overall action at your loss ratio in the quarter on a year-over-year basis, but I did it quickly. So if my -- the potential from my math to be off...

Thomas L. Brown
Chief Financial Officer and Senior Vice President

It's basically mixed.

Court Dignan
Fidelity Investments

It was -- the explanation is primarily mixed?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, it'd be basically mix. Yes, but it's not that big of a move.

Court Dignan
Fidelity Investments

I guess, the question is, is why wouldn't it have improved? And, I guess, the answer is mix. Is that reasonable?

Jonathan E. Michael
Chairman and Chief Executive Officer

Court, again, our view would be that it improved by about 2%, 2 percentage points overall from about 51% to 49%.

Court Dignan
Fidelity Investments

Okay, let me -- I'll take a closer look.

Jonathan E. Michael

Chairman and Chief Executive Officer

Okay. We can take that offline.

Court Dignan
Fidelity Investments

And then on the ProAg crop stuff, I'm just wondering if confirmed that, that's 100% quota share, right? Business? There's no XOL component?

Michael J. Stone
Director

It's Mike Stone, that's correct.

Court Dignan
Fidelity Investments

Okay. And then going into this year, we obviously know that current conditions are kind of continue to be challenging. I guess, in contrast to this time last year when the drought conditions were still developing, what can ProAg do to address that? My understanding of the crop business is the yield component is kind of computed using government tables, which are on a lag basis. So there's not so much you can do on a -- from a pricing standpoint, but is there a reinsurance component that you can do to address potentially increasing the profitability of that book year-over-year? And if drought conditions persist, is it kind of de facto that it would probably be another challenging year or are there things you can do to mitigate it?

Michael J. Stone
Director

This is Mike Stone. Yes, there's some things that you can do to mitigate it, but there's not a whole lot of tools. You can -- it's a fund selection. You can put more of the business in the development fund, where the government takes more risk than you do. The problem is the historically profitable states are the ones that were unprofitable last year and they're the ones that you typically would not want to seed more to the government. So I think there's a mix. I mean, last year Texas was better than Indiana, and typically that's not the case. So those kind of bets you can make on the edges, but I think most experienced crop people are going to say that it's not likely that you're going to have that kind of experience again in 2013. But nobody knows, right? So on the edges, you can manage some of that by seeding more and you can adjust your mix by writing more business in other states that are less likely to be affected.

Court Dignan
Fidelity Investments

Do you or ProAg buy XOL cover on top in that book?

Michael J. Stone
Director

No, we do not.

Court Dignan
Fidelity Investments

Do you know if ProAg does?

Jonathan E. Michael
Chairman and Chief Executive Officer

The government provides that.

Court Dignan
Fidelity Investments

Right. And on top of the government?

Jonathan E. Michael
Chairman and Chief Executive Officer

No.

Court Dignan
Fidelity Investments

No, okay. And then I was just lastly wondering if we'd get some additional detail on the casualty growth in the quarter. Was it disproportionate in one area like near contractors or something along those lines?

Michael J. Stone
Director

This is Mike Stone. We grew most of our products within our Casualty business. Certainly, we've written quite a bit of a commercial umbrella over the past few quarters in the Northeast. We grew our transportation. We grew our professional architects and engineers. We grew our GL. We grew our CBIC and we grew our D&O. So it's pretty widespread growth across our casualty book.

Operator

And we'll take our next question from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I think between and Court and Meyer, they covered most of mine, but I have one other I just wanted to hit on. You mentioned -- or the press release noted the $6.6 million dividend from Maui Jim. That all runs just through the balance sheet, right? That does not run through the P&L?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Mark, this is Tom Brown. That's correct. You'll see in the income statement, we pick up our 40% share of their income for the year, but the dividend is all balance sheet. This reduces our carrying value of the assets offset by the cash we receive.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So the only income tax effect is just the tax benefit that you note there, apart from the quarterly earning -- whatever your quarterly pickup would be?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

That's correct.

Operator

[Operator Instructions] We'll go to Adam Klauber with William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Could you give us, I guess, an idea on how exposure growth is faring, in particular did it pick up in the last quarter or 2 compared to the first half? And in particular, how is it doing in transportation and construction?

Michael J. Stone
Director

Adam, this is Mike Stone. I think exposure growth's up marginally in the second half of the year, less than 5%.

Court Dignan
Fidelity Investments

And how about in construction and transportation? Is that around the same?

Michael J. Stone
Director

It would be about the same, yes. I mean, I don't have that precise figure in front of me. I could get it for you. But yes, about the same. There's not been a lot of exposure growth other than, as I indicated before, in certain pockets of the country they have had experience more than others and some places that are still not growing at all.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. As far as favorable development, you had roughly 10% this year, 17% last year, 13%, the year before. If I remember you had some -- the last year, you had some -- there were some big programs you had development in. How many -- roughly how many points were those couple of big programs account for?

Michael J. Stone
Director

This Mike Stone. I'm not sure what programs you're talking about.

Adam Klauber
William Blair & Company L.L.C., Research Division

Well, I think maybe they're habitational. I can't remember the exact ones.

Michael J. Stone
Director

I mean we've had some development on our habitational book both on the property side and the casualty side over the years. Exactly how much it was last year, I don't recall. We can certainly get that for you.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then when we're looking at development this year, the 10%, just on a ballpark basis, is that more towards the old years 2007 and past or would you say it's more evenly spread throughout the last 7 or 8 years?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Adam, it's Tom Brown. It's actually, again, it's going to differ by line. In total, it's about half Property and half Casualty. And then in more recent years, Marine, for example, is in the '09 through '11 accident years. Some of the Casualty do dip back as far as '05, '07, but nominally [ph] I'd say the 2009 to 2007 -- or '11 accident years.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then finally just...

Jonathan E. Michael
Chairman and Chief Executive Officer

Just to clarify that, that's for the quarter.

Adam Klauber
William Blair & Company L.L.C., Research Division

Oh, for the quarter? Okay.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Both just for the quarter, correct.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then just finally, following up on the accident year. When we looked at the accident year loss ratio x CAT for the fourth quarter, it was down compared to the rest of the year. And clearly that, that number is going to bounce around quarter-to-quarter. But would you expect that to come -- continue to come down as we look into 2013?

Michael J. Stone
Director

This is Mike Stone, Adam. Certainly, we hope so, but I would suspect not. We think it would probably be relatively flat given the trend, what we see. So I would -- I wouldn't expect it will trend downward too quickly.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. So that sounds like you think the rate increases are just keeping up with loss trend roughly. Is that correct?

Michael J. Stone
Director

That's about -- yes, that's about correct. Yes. Hopefully it will accelerate.

Operator

Ron Bobman with Capital Returns has our next question.

Ronald David Bobman
Capital Returns Management, LLC

I just had a question about new business and the challenges across your different lines. You mentioned the various growth in different casualty sub-segments. If you could discuss that and your property book, the challenges in getting new business. Is there anything different about this sort of upswing in rate and the challenges or ease at winning new business?

Michael J. Stone
Director

This is Mike Stone. That's a good question. We would never -- I've got too many underwriters sitting around me that, if I said it was easy, they would throw something at me. So I think we're seeing more opportunities and more opportunities that are of business that we would be interested in writing. So we're quoting more business and we're able to bind a bit more business. I don't know if that's particularly responsive. We're -- we have a broader product mix today than we did a couple of years ago, so we're seeing more diverse opportunities. But I don't know that I'd say it's any easier. There's still -- we've talked about the standard lines, companies pulling back, others -- seem like there's more competitors everyday from various places in most of our businesses.

Operator

We'll go on to Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The first question is on the top line growth in the Casualty business that was up 19% on a gross basis this quarter versus 14% last quarter. Just curious how much of that came from pricing versus new opportunities that you're seeing in the market?

Michael J. Stone
Director

This is Mike Stone. About probably 35% of it came from pricing. The rest of it is new business.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Okay. That's interesting. The second question is on pricing. Historically, we see the fourth quarter as typically the worst quarter in terms of pricing because people want to meet the targets. Yet this time around, we've seen maybe a modest acceleration in pricing. Why do you think that happens and where do you think we'd go from here in terms of pricing?

Michael J. Stone
Director

This is Mike Stone, again. That's a good question. I mean, I think you're leading me to say it's going to get better because the fourth quarter was the worst and I'm not sure that's correct. I'm not going to go there. I do think that there's some momentum, no question about it. We've seen a couple of 3 quarters of upward rate movement. And coming off a fairly prolonged soft cycle, economy's starting to pick up a bit. I think all those things bode well for price to continue to move in a positive direction. I would also say, as I've said in previous quarters, this market feels a bit fragile. There's not as much fear out there as you would usually need and there's a considerable amount of capital chasing business. So like I said, I think I'm pretty cautiously optimistic as we move forward. And yes, I think the fourth quarter usually is the most difficult quarter.

Operator

[Operator Instructions] We'll go to Ray Iardella with Macquarie.

Raymond Iardella
Macquarie Research

Just one maybe to touch on Sandy. I know it came in kind of below your initial expectations. Is there anything sort of surprising to you guys in terms of the claims that have come in?

Michael J. Stone
Director

It's Mike Stone. And Ray, they came in at the low end of our expectations not below it. I don't think so. We probably had more marine losses than we would have kind of anticipated. But we haven't been in the marine business, haven't gone through a hurricane of any consequence since we've really been in that business to speak of. So I think that's maybe something peculiar to us. And -- but, no, we haven't had the struggles with wind versus water that you hear about. We haven't had the business interruption or contingency business interruption issues that you hear about. So all in all, we've got a bunch of marine losses and some other property losses, but nothing that I think that we would think would be unusual given the size and nature of the storm.

Raymond Iardella
Macquarie Research

Okay. And then maybe touch on the M&A environment, kind of what you guys are seeing, any opportunities out there? I know you guys are always looking but any update would be helpful.

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes. Ray, we continually look for potential opportunities both in acquiring teams of people and companies. As you know, we acquired Rockbridge Underwriting this past quarter and we'll continue to look for those. I wouldn't say there's any unusual uptick in the activity there, but -- or downturn in the activity.

Operator

And we have no additional questions in the queue. I'll turn things over to Jonathan Michael for any additional or closing remarks.

Jonathan E. Michael
Chairman and Chief Executive Officer

Thank you, all, for your questions and comments. We appreciate it. It was a good quarter in spite of Sandy, and a good year for RLI. I think this is our 17th year of -- consecutive year of an underwriting profit, and I think we've even been 8 years or so below 90, combined. So all in all, it's been a good run and we look forward to that continuing. Our premiums were up 12% for the year and book value is up 17%, including the dividend that we've paid.

Once again, thank you, and thanks to our underwriters and claims people, who've worked really hard to make these things happen. Thank you.

Operator
Thank you. And ladies and gentlemen, that does conclude today's conference call. Thank you, all, for your participation, and have a good rest of your day.