S&P Global
Market Intelligence

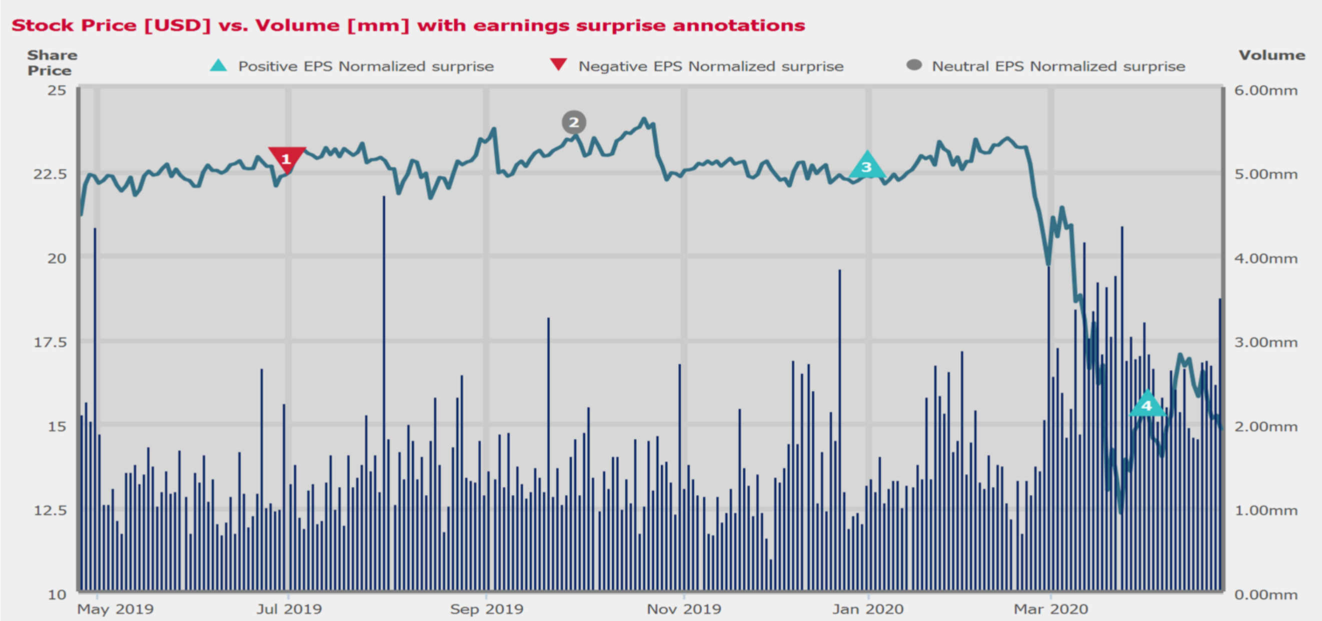
Old Republic International Corporation
NYSE:ORI
FQ1 2020 Earnings Call Transcripts

Thursday, April 23, 2020 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.31	0.47	51.61	0.49	1.80	1.55
Revenue (mm)	341.00	701.50	105.72	1506.00	4407.00	5264.00

Currency: USD
Consensus as of Apr-23-2020 6:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.48	0.45	(6.25 %)
FQ3 2019	0.51	0.51	0.00 %
FQ4 2019	0.42	0.47	9.30 %
FQ1 2020	0.31	0.47	51.61 %

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Call Participants

EXECUTIVES

Carolyn Jean Monroe
President

Craig Richard Smiddy
President, CEO & Director

Karl William Mueller
Senior VP & CFO

ANALYSTS

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

Matthew John Carletti
JMP Securities LLC, Research Division

ATTENDEES

Marilynn Meek
ZAIS Group Holdings, Inc.

Presentation

Operator

Good day, and welcome to the Old Republic International First Quarter 2020 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded.

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

Marilynn Meek
ZAIS Group Holdings, Inc.

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss first quarter 2020 results. This morning, we distributed a copy of the press release and posted a separate statistical supplement, which we assume you have seen and/or otherwise have access to during the call. Both of the documents are available at Old Republic's website, which is www.oldrepublic.com. Please be advised that this call may involve forward-looking statements as discussed in the press release and statistical supplements dated April 23, 2020. Risks associated with these statements can be found in the company's latest SEC filings. This afternoon's conference call will be led by Craig Smiddy, President and CEO of Old Republic International Corporation and several other senior executive members as planned for this meeting.

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

Craig Richard Smiddy
President, CEO & Director

Thank you, Marilynn. Well, good afternoon, everyone, and welcome to Old Republic's First Quarter 2020 Earnings Conference Call. With me today, we have Karl Mueller, Old Republic International's CFO; and we have Carolyn Monroe, the President of our Title Insurance Group. In the past, Rande Yeager, our Title Group Chairman; and Mark Bilbrey, our Title Group CEO, have joined us on the call. But given that Carolyn was promoted to President of the Title Group in January of 2019 and given our close proximity to the ongoing operations within the Title Group, we thought it was best that she join us for this call and talk about what's happening in the Title operations, especially in the midst of the COVID-19 related challenges, where Carolyn has been burning the midnight oil, working with all the folks on the front lines and doing a remarkable job of keeping our Title operations executing at a very high level. So welcome, Carolyn. Appreciate having you join us for the discussion today.

As we work through the challenges resulting from COVID-19, we certainly want to send all of you, your families, friends and coworkers our very best wishes. I'd also like to take a moment to acknowledge all of Old Republic's more than 9,000 associates that have mobilized their remote working capabilities and also all those essential workers in our offices, all of whom are working to ensure that our services and capabilities for our customers, our agents and brokers continue uninterrupted. Although in most states, we're recognized as an essential industry and essential workers, currently more than 95% of our General Insurance group and approximately 80% of our Title Insurance associates are working remotely. The small number of associates we have in the offices are working to ensure that mail gets processed, checks get mailed and that our IT infrastructure remains vibrant to support all of those working remotely.

I'd also note that we're among the fortunate to be able to say that we have not furloughed any of our associates during this time. So before handing things over to Karl, I'll offer a few initial comments regarding our first quarter. As you saw in our release, Old Republic posted strong first quarter 2020 operating results relative to the first quarter of 2019 and these results were driven by an exceptionally strong quarter for our Title Insurance segment. As noted in our release, COVID-19 had minimal effect on our first quarter results. However, we also acknowledge that the effects of COVID-19 and the associated governmental responses could have a negative effect on our top line premium and fee revenues in the second quarter and subsequent quarters of 2020, and as such, these declines could also result in higher expense ratios in the short term. Our first quarter operating results, again, demonstrate that our strategic diversification between Title Insurance and General Insurance works very well to produce consolidated revenue and earnings growth over time.

So at this point, I'll turn matters over to Karl to discuss our overall consolidated financial results. I'll also ask him to address our small RFIG run-off segment. After which, he'll turn things back to me to discuss the General Insurance segment. Then Carolyn will discuss the Title Insurance segment. I'll make a few closing comments and then finally, we'll open up the discussion to Q&A.

So with that, Karl, take us away.

Karl William Mueller
Senior VP & CFO

Good afternoon, everyone. Before commenting on the first quarter results, I'd like to add to Craig's earlier comments and recognize our accounting and financial reporting associates for their diligence and commitment during this period of turmoil resulting from the COVID-19 pandemic. Despite the fact that most of our employees were working remotely, we were able to complete the financial close without significant disruption while at the same time, retaining the integrity of our internal control process. Job well done by everyone.

Turning now to the quarterly results. This morning, we announced first quarter net income, which excludes all investment gains and losses of almost $141 million, which is up nearly 16% from a year ago. On a diluted per share basis, that equates to $0.47, which is an increase of 17.5% from the prior year. As noted in this morning's release, our operating results were largely unaffected by the COVID-19 pandemic. However, the resulting disruption to the financial markets led to substantial declines in the fair value of our equity portfolio. The pretax fair value decline of approximately $963 million was really the main contributing factor to the first quarter reported net loss and corresponding reduction in book value.

Consolidated net premiums and fees earned registered strong growth of a little over 10% to $1.5 billion. The General Insurance group increased about 2.5%, and our Title group grew by almost 24%, as Carolyn will address in a few moments. Net investment income grew nearly 2% to a -- due to a larger invested asset base and greater dividend income, which arises from the relatively higher-yielding equity portfolio, and that was offset by slightly lower yields on the bond portfolio. From an underwriting perspective, this quarter's consolidated combined ratio of 94.9%, marked about a 1.1 percentage point improvement over 2019. The quarterly claims ratio trended lower, and the expense ratio ticked upwards slightly primarily due to a mix of business shift. And then that shift was more towards the Title segment, which as you know, carries a lower loss and a higher expense ratio.

Consolidated claim reserves developed slightly favorable in both periods, reducing the reported claim ratio by 0.8 and 1.6 percentage points for the current and prior year quarters, respectively. We experienced favorable prior year development on the reported claims ratios for each of our operating segments to varying degrees during the quarter. This morning's release, along with the financial supplement, provide some additional detail about those historical development trends.

Turning now to our financial condition. Total cash and invested assets decreased to $13.5 billion at the end of March. Driving this change was the combination of strong operating cash flow of $216 million offset by, as I mentioned earlier, the substantial unrealized market depreciation in both the equity as well as the fixed income portfolios. As a reminder, the composition of our portfolio is approximately 76% allocated to bonds and short-term investments and 24% to equity securities. Our equity portfolio consists of approximately $100 million that are predominantly large-cap, value-oriented, dividend-paying companies. We manage the portfolio within our risk management framework, which does take into consideration expected price volatility.

The value of our portfolio -- equity portfolio declined by approximately 24% during the quarter to an unrealized loss position of roughly $22 million at the end of March. As of yesterday's close, the portfolio had rebounded to a $175 million unrealized gain. Despite this significant downdraft in valuation at the end of March, we are still operating within our risk tolerance thresholds. And consequently, we have not made, nor do we expect to make any material changes to our investment strategy. Old Republic's book value per share decreased from $19.98 at the end of 2019 to $17.29 at the end of March. As previously noted, the most significant contributor to this decline relates to the $2.53 per share reduction in the fair value of the equity portfolio.

Operating income of $0.47 was additive to the book value, and we returned capital to our shareholders in the form of the regular cash dividend, and that amounted to $0.21 per share or $0.84 on an annual basis. And this year's annual dividend payout represents about a 5% increase over last year's regular cash dividend rate. This year, 2020, marks the 79th year of paying uninterrupted regular cash dividends as well as consecutive years of increasing the dividend rate for the past 39 years. We ended the quarter with $6.1 billion of total capitalization, low debt leverage ratios and adequate liquidity throughout the enterprise. As highlighted in the release, we believe that our strong financial position will enable us to weather these challenging times.

So as Craig mentioned, let me now just briefly discuss our run-off mortgage insurance segment. From a capital management perspective, we entered this year with the anticipation of beginning to withdraw excess capital from our mortgage guaranty run-off operation. During the quarter, we did, in fact, obtain regulatory approval and received a $37.5 million extraordinary dividend from our 2 principal mortgage insurance companies. Total statutory capital at the end of March continues to remain strong and registered $410 million. The first quarter mortgage insurance results were not significantly affected by the COVID-19 pandemic, as Craig mentioned earlier. The impact on unemployment levels in real estate markets, along with the mitigating effects of the government-loaned forbearance programs are areas that we are monitoring closely. By definition, a mortgage in forbearance is not considered to be in default.

Let's also keep in mind that this is a mature book of business. We've not written a new policy since 2011. A large percentage of the in-force file was written in 2009 and earlier years. In addition, approximately 60% of the loans that are insured have previously been modified or refinanced under the government's home affordability programs, the HARP and HAMP programs. So these factors, along with the rate at which the U.S. economy recovers, could affect future claims experience and potentially slow the return of capital from the run-off business until there is greater clarity. So that said, we continue to pursue all previously mentioned options in the interest of producing the most beneficial long-term outcome for all stakeholders.

With that, I'll now turn things back to Craig for discussion of the General Insurance group.

Craig Richard Smiddy
President, CEO & Director

Okay. So as the release indicates and as we show in the financial supplement, compared to first quarter 2019, General Insurance saw quarter-over-quarter operating revenue increase by 2.9% and quarter-over-quarter operating income was up 1.7%. Net premiums earned in commercial auto rose by 3.6% quarter-over-quarter, attributable to the positive effect of rate increases that we have continued to attain on the commercial auto line. And in the first quarter, those rate increases remained in the high teens.

On the other hand, premiums were somewhat offset by a decline in the exposure base. As can be seen in the financial supplement, workers' compensation experienced a 9% drop in net premiums earned quarter-over-quarter. This is attributable to the negative effect of rate decreases that continued in the low single digits for us during the first quarter and also from a decline in the exposure base. Thus far, the lower rate level that we have in the workers' compensation line continues to correspond with the lower claim frequency trends that we and the industry are seeing on that line. Quarter-over-quarter, the General Insurance overall composite ratio rose slightly to 95.6%, up from 95.3%, and this was attributable to a slightly higher expense ratio. The first quarter expense ratio came in at 25.8% compared to the first quarter of 2019 when it stood at 25.5%.

So turning to claim ratios. Our first quarter commercial auto claim ratio came in at 77% compared with 79.1% in the same period of 2019. As demonstrated by our continuing level of rate increases for this line, along with our reduction in exposure from our risk selection efforts, we continue to work very hard to bring this claim ratio back into line with our target in the low 70s.

Turning to workers' compensation. The first quarter claim ratio came in at 71% compared to 70.7% in the first quarter of 2019, and we continue to remain very pleased with this result, obviously. For commercial auto, workers' comp and GL combined, given that we typically provide these coverages together to an account, we like to also look at that combined results, and the quarter-over-quarter claim ratio for those 3 combined was flat at 74.1%. Still looking at the financial supplement, you can see that the remainder of our claim ratios are very much in line with our target. And of course, all of the claim ratios we report are inclusive of favorable and unfavorable prior year claim development. And in the latest quarter, we saw favorable development of 0.7%. So for General Insurance, as I mentioned earlier, the remaining quarters of 2020 could prove challenging from a top line perspective, but we will continue to seek the appropriate price that we need for our products. And we'll continue to focus on the long term when it comes to managing our expense ratios.

So on that note, I'll now turn the discussion over to Carolyn for her comments on Title Insurance. Carolyn?

Carolyn Jean Monroe
President

Thank you, Craig. While these have really been challenging times, the employees in the Title division have embraced this challenge and are working through the chaos in order to continue business and serve our customers. Despite the

COVID-19 pandemic, residential and commercial sales and refinances continue to fund and transactions need to close. Amidst this, we are ever mindful of the safety and well-being of our employees and customers. Access into our offices is generally restricted to employees only, which has really caused us to be very creative in carrying out our business.

Our direct operations and our Title agents have conducted drive-through closings, set up tents outside of offices, provided single-use pens for signing documents, all while continuing to practice social distancing. My heartfelt appreciation goes out to all of our employees and our Title agents on their creativity and most importantly, the positive and really collegial attitude that we hear about on our daily calls with the leadership team in our Title group.

The COVID-19 disruptions have led to a variety of emergency state orders that impact our business. Many motorization statutes have been amended in order to comply with distancing requirements and to create avenues through which closing transactions may continue. Based on these orders, our Title technology company Pavaso, which was originally designed for electronic closings and law legislation, was able to pivot and adjust its technology to allow our agents and offices to continue conducting closings through a secure platform, which allows for adherence to social distancing restrictions. This platform provides an essential notary function that allows for the entire notarization of documents to be completed remotely.

Between the ingenuity of our offices and agents and the supportive technology like Pavaso, we have been able to keep pace in our current environment. The Title group kicked off the first quarter of 2020 on a record pace. The market experienced near record lows on mortgage rates. All-time first quarter highs were set in terms of both direct and independent agency revenue and operating profitability. For the first quarter, total premium and fee revenue was $628.1 million, which was an increase of nearly 24% over the first quarter of 2019. Agency premiums were up around 21% and direct operating revenue approximately 31%. In terms of operating profitability, the Title group reported pretax operating income of $43.3 million for the quarter compared to $20.5 million in the first quarter of 2019, an increase of 110.6%. We ended the first quarter with some of the highest open order counts in the history of our company.

We continue to adjust to doing business while operating under the various state shelter in place orders and social distancing requirements. We are mindful of the challenges ahead for our organization and our nation in general. Our firm belief is that with the continued unwavering commitment of our employees and the support of our Title agents, we will be more than ready for these challenges. We will rely on the same guiding principles of integrity, managing for the long run, financial strength, protection of our policyholders and the well-being of our employees and customers that have served us well over the last 100-plus years.

And with that, I'll turn it back to Craig.

Craig Richard Smiddy
President, CEO & Director

Okay. Thank you, Carolyn. So again, our first quarter operating results indicate that our business continues to perform very well. We continue to focus on underwriting excellence even during these challenging times. And our capital position remains very strong with significant dry powder to weather the macroeconomic disruptions and to be well positioned when the economy eventually rebounds. I'll also note that our MD&A discussion in our upcoming 10-Q will provide additional more detailed disclosure around the risk factors associated with COVID-19.
So with that, we'll conclude our prepared remarks, and we will open up the discussion for Q&A.

Question and Answer

Operator

[Operator Instructions]

And our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Craig, just had a few questions for you. Let's start with General Insurance. The 2 major business lines, transportation, your commercial auto and workers' compensation. I had a couple of questions on each one. Maybe start with commercial auto. And you mentioned in your opening comments about kind of seeing some exposure falloff, which makes sense. Following on that, could you comment on what you've seen to date in both the frequency and severity side of things. And I'd imagine, too, that as you dig into that book, that there's parts of it that are maybe even seeing favorable frequency trends and other parts that are seeing maybe -- I'm sorry, revenue trends and others that are seeing negative revenue trends. Can you help us dissect it a little bit on what you're seeing?

Craig Richard Smiddy
President, CEO & Director

Sure. Matt, I'd be happy to provide some color around that. So I'll talk about auto, although there are a lot of similarities between auto and comp. Certainly, claim counts are down. But the majority of our premium is exposure-based, meaning the premium is based upon sales receipts, miles driven for work comp, its payroll. So we really have to wait and see what -- when we get the exposure reporting from our insurers and through premium audits to see what that denominator looks like. It's -- while counts are down, if you have a fixed denominator, you can perhaps declare an early victory around frequency and on the other hand, with the denominator that is somewhat variable depending upon where ultimately the premium settle in, it's really too early to declare that frequency is down.

So for instance, if the denominator is miles driven, we have to see what those miles driven were and take those claim counts and divide it by miles driven. So it's a little different perhaps than, say, personal auto, where the denominator might be a fixed annual premium, and you can -- with a pretty high degree of confidence, because the counts are down say that the frequency is down. But with a denominator that is one that does fluctuate depending upon the exposure base, it's a little bit harder to be precise about where ultimately, frequency will be. But certainly, claim counts are down for auto.

Workers' compensation, very much the same thing. There -- the denominator when we look at frequency is payroll for the most part, we look at it a couple of different ways. But to the extent that we have to see what payrolls are ultimately reported. What premium audits look like, it's a little hard to tell whether those lower claim counts right now are an absolutely clear indicator that frequency is down. Certainly, claim counts are down. I will just add one comment, not specific to what you asked, but also there's the question about, well, how do COVID-19 claims impact things. And there, I would say that there's some pretty good analysis out there by NCCI and WCIRB in California that talks about their observations and analysis on frequency.

And to make it a long story short, what it really indicates is that there's a lot of things that are driving frequency down. And on the other hand, there are some things that are driving frequency up. So with respect to COVID-19, while there might be some uptick from that, there's arguably a downward pressure on frequency from other things such as auto accidents, for example. So a bit of a moving target, but hopefully, that gives you some more color around how we're looking at frequency when it comes to auto and comp.

Matthew John Carletti
JMP Securities LLC, Research Division

Yes. Very helpful. And then maybe just a follow-up on each one of those. On workers' comp, I'm pretty familiar with kind of how the premium audit process works, but less so on transportation. So as we think about your book and then getting that denominator right, how quickly or how often do you kind of get that information from your insurers in terms of what the exposure really is? Is it a short lag? Or is it more end of policy audit?

Craig Richard Smiddy
President, CEO & Director

Great question. Yes. Usually, we get the reports within 60 days, in some cases, every 30 days. So it's perhaps more quickly than you would in a normal premium audit situation where, I think, for example, on workers' comp, where that's a little more elongated as far as the ultimate audit.

Matthew John Carletti
JMP Securities LLC, Research Division

Right. Okay. Perfect. And then on comp, I just want to ask you a question about kind of if you could help us understand order of magnitude of industry exposures and the ones in particular being, obviously, retail, hospitality, restaurants, getting hit hard, at least on the revenue side. And then the other pocket being hospitals and first responders with some of the kind of proposed regulatory change and presumption of injury. Just curious if you could help us -- those couple of buckets, just rough exposures in your workers' comp book.

Craig Richard Smiddy
President, CEO & Director

Sure. So we have very little travel, leisure exposure. We do have some health care related exposure. As you'll note, though, where we do have health care related exposure, we don't provide general liability or professional liability. So it is just a workers' compensation exposure that we would have there. And with respect to the presumptive regulations and the rebuttable presumption regulations that, as you know, are a rapidly evolving dynamic and vary from state to state. We're keeping a very close eye on that and prepared to handle those claims in accordance with those regulations in those states.

What we've seen so far is that more than 50% of the workers' compensation claims we have seen don't yet have a confirmed COVID-19 diagnosis. And also, I know I mentioned NCCI and WCIRB as well. And WCIRB, in particular -- the other thing you have to keep in mind is that 80% of workers' comp claims from COVID-19 are -- don't require hospitalization, mild symptoms. WCIRB has a total indemnity and medical benefit average cost projection of $1,400 in those instances. 15% require hospitalization, where it's about a $50,000 total workers' compensation payment. And then 4.3% require ICU, where their projection is about $140,000. And then less than 0.7% result in a death benefit, which they project at about $333,000. So I give you that just because I think it's very important to keep things in perspective here.

And the other thing that I would give you very specific to our portfolio is that over 90% of the work comp claims that we have reported thus far are loss-sensitive, mostly large deductible. So if you take those numbers that I gave you as an example, we would expect the majority, the vast majority of those payments to be well within those large deductibles. So for us, given that we've made a very conservative strategic effort to move our business more towards loss-sensitive business I think this is a good indication of why we do that. And therefore, over 90% of these work comp claims that we've seen thus far, we would expect to be paid by the insured within their deductible.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. That's very helpful. There's one last numbers question, and then I'll get out of the way. Just on the little bit of favorable prior period development, 70 bps. As you look at kind of the 3 major coverage groups or segments, were there any -- was it all kind of just small movements within those segments? Or was there a particularly notable adverse in one favorable and the other that offset to get to that 70 bps?

Karl William Mueller
Senior VP & CFO

Yes. Matt, this is Karl. I would say, in the current year quarter, there's not significant movement between the 3 primary lines, workers' comp, commercial auto and GL. As you might suspect, workers' comp developed slightly favorable for the quarter. Commercial auto was basically neutral, and GL did have a slight bit of unfavorable development. But when you wrap it all together, it was not significant.

Operator

And at this time, we have one question remaining in the queue. [Operator Instructions] We'll take our next question from Greg Peters with Raymond James.

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

I'd like to kick off my round of questioning with perhaps, Craig, you could comment on the risk management business. And specifically, the news in the marketplace about employers, for low-end employees and all of the huge numbers and increase in unemployment seems like the risk for you guys is that revenue will shrink in some fashion over the next several quarters. And I know you don't really want to provide guidance on that, but maybe you could talk about how your conversations are going on with your risk management accounts currently? And what kind of indications are giving you about the state of their respective businesses?

Craig Richard Smiddy
President, CEO & Director

Sure, Greg. Well, on the risk management business, the majority of the exposure for that business is retained by the risk management clients. So when you look at the premium that we take in, it really is for some excess exposure for the servicing of the business. And therefore, when I think about revenue challenges going forward, risk management business is not the area that is of greatest concern. It's probably of a lesser concern because, again, it's us really charging a fee, more of a fee-related kind of premium for the servicing of the business where the client's taking the risk. And so a decline in exposure or what have you, it mostly would have come out of that portion that they're retaining.

So the more concerning business is our midsized business. And we're not necessarily a small business provider for workers' comp. And auto, I would say that we're more of a midsized player. And the bigger concern would be those midsized players that are under such financial stress that they have difficulty rebounding when the economy comes around. So I'd say we feel pretty comfortable with where we sit with regard to our risk management business.

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

Okay. I know there's been a couple of really hot topics, and I think it's probably appropriate to have you guys comment on them. First, you do break out a property component within your General Insurance business. And business interruption usually is associated with the property type coverage. I'm not asking you to opine on the current chaos around business interruption, but maybe you could give us some color about -- if you have exposures? Is the vast majority of your policies are following the ISO form, et cetera. That would be helpful.

Craig Richard Smiddy
President, CEO & Director

Sure. I'd be happy to do that, Greg. So just working with the financial supplement since the majority of you folks, I'm sure, have that nearby. If you look at our property writings, they make up about 8% of our overall net premiums earned. Of that 8%, 0.75 of that is inland marine, which there is no BI component to that. The other -- so the remaining 2% of that property is property policies that would have a business interruption component. And I can tell you that 99.8% of our policies for business interruption include the exclusion for virus and pandemic-related events. So we feel very good about, well, first, that we don't have a significant exposure.

And second, that we have a very tight box around that because I will find that to invalidate that virus exclusion and create contract uncertainty and to abrogate the contract that was struck between the insured and the insurer, as you very well know, from everything in the industry right now is viewed by many, including us as something that would undermine contract law and even [beyond] constitutional. So we feel very strongly that those virus and pandemic exclusions that we have on the vast majority of our policies will ultimately stand.

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

Okay. And then the other piece, it's popped up recently, would be around force majeure. And I'm curious about your portfolio, if you have any clauses, force majeure clauses in there, et cetera? Maybe you can speak or opine on that briefly.

Craig Richard Smiddy

President, CEO & Director

Yes. So for our -- on our surety business right now, in particular, there is the force majeure clause. And we've done an extensive look into our surety business in particular. And therefore, we think that we do have some protections there. And thus far, we haven't seen any increase in claim activity on our surety policies, and we think that for the most part, our contractors -- our surety contractors will ultimately be able to conclude the work. And as you might also know, the other good thing there is that in most states, contractors have also been deemed to be essential workers. So right now, we don't have any heightened concerns around our surety business.

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

And the surety business, within the categories you identify on Page 4, which -- where does that surety business flow through? Is that the financial indemnity? Or is that the other coverages component?

Craig Richard Smiddy
President, CEO & Director

Yes. It's under footnote 2, which is financial indemnity.

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

Okay. I want to pivot ever so briefly. Carolyn, the -- while I know you spoke positively about the first quarter results, it certainly seems like order flow has -- meanwhile you may have ended the quarter on a decent note. It seems like it -- the rhetoric in the marketplace has come to a grinding halt. Can you provide us any sort of color on what we should be thinking about in this business over the next several quarters, considering all of the damage that's been done to the economy from this COVID-19 virus?

Carolyn Jean Monroe
President

Well, Greg, right now, when we look at our current orders, they're keeping pace with where we were during the second quarter of last year. While the refinances have certainly grown, we just don't have an indication of a slowdown. Our revenue and our orders are right in line with second quarter of last year.

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

And so you would expect the trends of last year to continue beyond the second quarter? Or is it just you think there's just a wave of refinancing because of lower rates? Or...

Carolyn Jean Monroe
President

Yes. We're at an all-time low, yes, on mortgage rates. I just think it's too early. A lot of it's just going to depend on how long this pandemic goes, when people are able to get back to work. It's so early in the process to really tell what the full impact will have on us.

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

And can you just remind us of the percentage of direct versus agency?

Carolyn Jean Monroe
President

85% of our revenue is -- comes from agents, our premium revenue.

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

Okay. Great. I guess the final question I'll have will probably go to Karl. Karl, I know you spoke about the change in the unrealized gain and loss as a result of the fluctuations in the market as of the end of the quarter. But then you also gave us an indication of where that unrealized loss position -- how it recovered since then. Do you have an estimate of what that means in terms of impact to book value per share?

Karl William Mueller
Senior VP & CFO

Craig -- Greg, I do not have that broken down on a book value per share basis. I mean it should be a simple matter.

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

So is it based on your comment that the unrealized loss that you booked in the first quarter would be reversed in the second quarter if the books were to close as of yesterday? Is that correct -- is that how I read your comments?

Karl William Mueller
Senior VP & CFO

Well, the first quarter, the change from year-end was $962 million depreciation. That's now recovered to $175 million unrealized gain. So a swing of almost $200 million. So that divided by roughly 3 million shares would get you to the answer.

Operator

Thank you. And we currently have no additional callers in the queue at this time. [Operator Instructions] And we do have a follow-up question from Greg Peters with Raymond James.

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

I couldn't help myself. When I look at the run-off RFIG business. And I look at the dispersion of risk enforced by policy year with the majority, 41% is categorized as 2007. How is it that these mortgages from 2007 haven't paid out their full -- or paid up and covered at least the 20% or 25% threshold for -- that you surpassed that threshold for what you're required for to have an MI? I don't understand that.

Karl William Mueller
Senior VP & CFO

Your question -- well, I think the answer is that there's not a remeasurement unless there's -- of the loan-to-value ratio, which would result in dropping the MI coverage. I think it stays in place.

Operator

Thank you. And it does appear we have no further questions at this time. I'd like to turn the conference back over to management for any additional or closing remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well, we would just like to thank everyone for participating today. And hopefully, when we reconvene in about 90 days from now, we'll be in a situation that is much better for this country. And hopefully, folks are able to be back at work and the economy is back on track. So we wish you all the best during the time between now and then. And again, thank you for your support and your participation on today's call. So thank you very much.

Operator
Thank you. And again, ladies and gentlemen, that does conclude today's call. Again, we thank you for your participation. You may now disconnect.