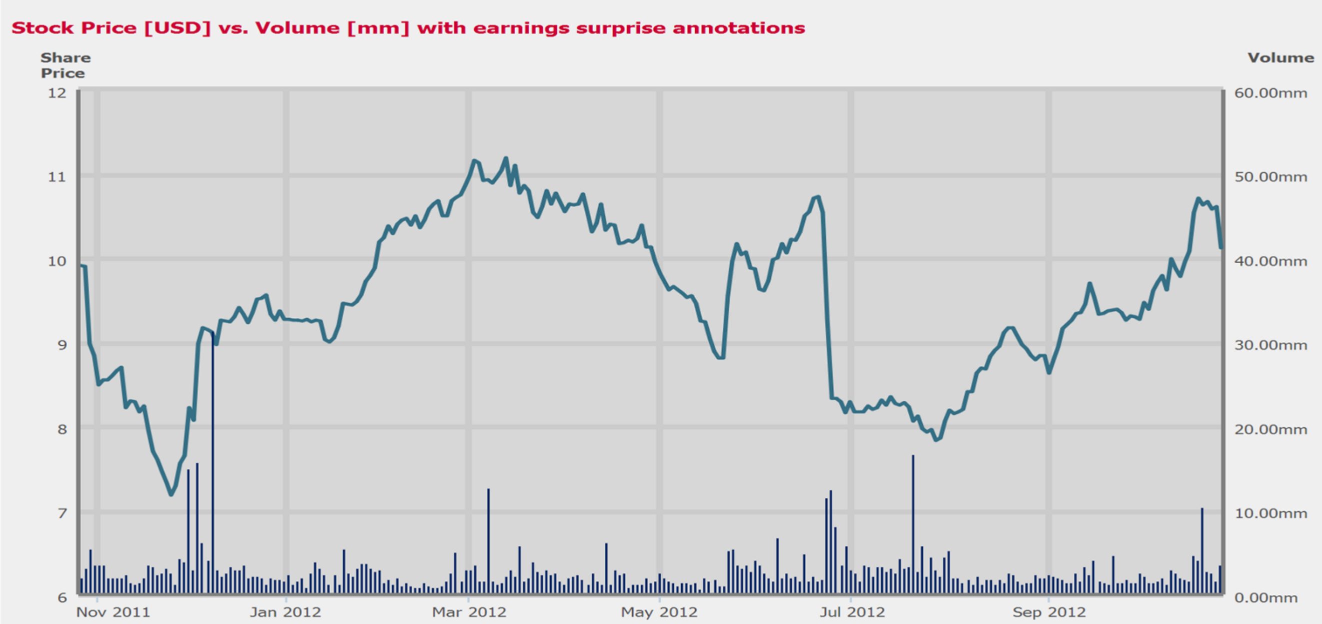
S&P Global
Market Intelligence

Old Republic International Corporation
NYSE:ORI
FQ4 2012 Earnings Call Transcripts
Thursday, January 24, 2013 8:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.05)	(0.09)	NM	0.48	(0.28)	(0.39)
Revenue (mm)	1220.08	1279.00	▲4.83	2505.11	4591.07	4922.20

Currency: USD
Consensus as of Dec-11-2012 1:28 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	(0.16)	(0.11)	NM
FQ1 2012	0.21	(0.01)	NM
FQ2 2012	0.03	(0.19)	NM
FQ3 2012	(0.03)	(0.11)	NM

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman & CEO

Karl William Mueller
Senior VP & CFO

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

Richard Scott Rager
Executive Vice Chairman

Scott Eckstein
Director of Account Services

ANALYSTS

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Jim Ryan
Morningstar Inc., Research Division

John Deysher

Stephen Mead
Anchor Capital Advisors, LLC

Steven William Charest
Divine Capital Markets LLC, Research Division

Unknown Analyst

Presentation

Operator

Good day and welcome to the Old Republic International Fourth Quarter 2012 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions] I would like to remind everyone that this conference is being recorded.

And I would like to now turn the conference over to Mr. Scott Eckstein with MWW Group. Please go ahead.

Scott Eckstein
Director of Account Services

Thank you, operator. Good afternoon and thank you for joining us today for Old Republic’s conference call to discuss fourth quarter and full year 2012 results. This morning we distributed a copy of the press release. If there is anyone online who did not receive a copy, you can access it at Old Republic’s website which is www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release dated January 24, 2013. Risk associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Al Zucaro, Chairman and Chief Executive Officer; Scott Rager, President and Chief Operating Officer of our General Insurance Group; Rande Yeager, Chairman and CEO of our Title Insurance Operations and Karl Mueller, Old Republic CFO.

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

Aldo Charles Zucaro
Chairman & CEO

Okay, thank you, Scott, and good afternoon from our deep freeze here in Chicago land. As Scott just said, we take it you've seen this morning’s release that you have read it. We also post on our website a statistical exhibit that you can go to which contains a great number of numbers. So as we usually do, we are not going to spend much time repeating what's in the material, instead we’ll just add a few highlights and then we will open this session to any questions you may have as was just suggested.

As Scott also just said, there are 4 of us here. I will start the ball rolling with a few comments about the consolidated business and the runoff Mortgage Guaranty and CCI businesses and then I'll pass the baton to Scott Rager, who will comment on our General Insurance segment. He will be followed by Rande Yeager and Rande will be followed by Karl Mueller who will speak to some of the more important aspects of our financial situation and then I will come back with closing remarks and as I said open it up to questions, okay. That's what we are going to try to do in the next few minutes.

So from overall standpoint, the consolidated numbers for both the year and the last quarter of 2012, they were pretty much on target with respect to premiums and fees certainly; very much on target with respect to net investment income and the pretax earnings, believe it or not were pretty much as we expected them to be. From a segment reporting standpoint, of course the Title business continued to be very strong and was moving and has been moving in an upward trend now for quite a number of quarters since the economy started to pick up some steam.

The run-off business which for all intents and purposes as we’ve said before in prior conference call, really represents for us a discontinued combination along Mortgage Guaranty line as well as the Consumer Credit Insurance business and that business reflected a down trend in operating losses, meaning of course that operating losses in this past year and last quarter of the year were much lower than they were in 2011.

Now, if you look at the details that we put in the news release, you will see that this was much more accentuated for the Mortgage Guaranty segment than it was for the CCI which particularly in the second quarter of 2012 was penalized by substantial increase in our loss adjustment expense and litigation expense allowance and that contributed to a much more accentuated loss for the CCI contribution to the RFIG run-off. And in this regard by the way, the release format, the earnings release format that you see there was adopted in the second quarter of last year and has been continued and we expect it to become the template so to speak for the next several years as the run-off business ultimately extinguishes itself.

Again, as we noted in this morning's release the Mortgage Guaranty run-off has been truly stabilized in the past several months and the main reason for that has been a regulatorily approved plan that was objective and whose effect is to maintain the statutory solvency of both our flagship as well as the second tier mortgage insurance companies we have in our Mortgage Guaranty business. So now with this plan in place the Mortgage Guaranty, the mortgage insurance business has effectively been side-tracked so to speak from the main lines of our operations and it is no longer a factor in managing both the risk as well as the capital structure of the overall Old Republic enterprise.

As we also noted, our Title business is starting to percolate big time as the housing industry and as Rande will explain shortly, there are a number of positive factors that affect that business and we are the beneficiaries of those factors. We think that the business is quite capable of both self-funding to support its continued growth down the road and also to provide a significant source of holding company liquidity through its dividend paying capacity of which in this regard Karl Mueller will address shortly.

However, when it comes to our largest segment of General Insurance, last year's results were no question about it, quite disappointing as the underwriting account truly went south on us. We truly believe however, that this is largely a temporary situation which is likely to mend itself as the stronger premium dates from both growth as well as rate improvement continues to emerge in the top line earnings stream during 2013.

Now might be a good time since I just approached to this matter of our General Insurance business to have you, Scott, take the reins and provide a little more color as to what's happening in General Insurance.

Richard Scott Rager
Executive Vice Chairman

Okay. Picking up from Al and looking at our release, excluding CCI product, net premiums earned were up nicely at 10.2% over 2011. The components of that growth were a combination of moderate rate increases, organic growth of existing insurance as well as some new business addition, all of which vary among our individual operations.

Policy retention ratios were at expected levels and in any event they trended mostly upward in 2012 for the segment as a whole. As the release indicates claim costs particularly those in workers' compensation edged upward.

The 3 primary drivers of that increase are medical treatment inflation, pharmaceutical costs and to a lesser degree economic conditions in some of the industries we serve which conditions usually limit prospects for returning to work, work hardening and or light duty opportunities.

In the aggregate, again excluding the CCI impact, the Group even with the increased claim costs still close to the composite ratio of 98.7%. It's noteworthy that this marks the 10th consecutive year that the General Insurance Group's composite ratio excluding CCI has been below 100%.

Considering the 1.6 percentage points added to the expense and thus the composite ratios for the debt accounting changes effective the first of 2012, comparable apples-to-apples, year-to-year composite ratio of 97.1% would result. Having said that, an expense ratio in the 25% range is representative of our continuing efforts to manage these components of our business operations.

Looking to 2013 in general terms, we see a more favorable overall rate environment although nothing dramatic. A reasonable growth expectations and continued loss ratio as comparable to what we've posted more recently in the core group business.

Now, I will turn the mic over to Rande Yeager for his comments with respect to the Title operations.

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

Great, thank you, Scott. As you can see the Title company continues to show positive momentum quarterly and full-year revenue and profits were up significantly. As you can see revenue increased 23% to over $1.6 billion and we are proud of the fact that our 2012 profits doubled to $73.8 million.

The company benefited from several factors. First, market share gains, we've gone from 5.6% to 13.7% of the national markets since 2008, certainly the improving real estate market has been a factor and even more so strong efforts by all of our personnel to control cost and risk has been at the top of the list.

Our claims ratio continues to improve because of the favorable claims development and both the numbers and the severity of claims continued to decline. Our mix of agency to direct business is targeted and remains at about 2/3 agency revenue to 1/3 direct. That number has really not changed; it’s remained relatively constant for the past 10 years.

In the near-term and I say that with a next year or so in mind, we see more or the same as long as mortgage interest rates don’t move dramatically higher and jobs don’t fall off the table, the Title companies are going to do very well.

Now, as we said at the beginning of the call, I'll turn the mic over to Karl Mueller to address consolidated highlights from a financial perspective.

Karl William Mueller
Senior VP & CFO

Okay, Rande, thanks. As we reported in this morning's news release, we ended the year with shareholders’ equity of right at $3.6 billion or $14.03 per share, and that’s down a bit from the $14.76 that we reported a year ago.

The chart that we've included on Page 8 of the release highlights some of the more significant changes in book value per share since year-end 2009. Now, I would just point out that over that period, the total decline of $2.46 included $2.10 that was paid to ORI shareholders in the form of regular quarterly dividends.

The reported book value per share is really broken in 2 components as we laid out in the release. And the first is $14.25 per share attributable to our ongoing operations which exclude RFIG and that value is offset by the $0.22 per share of negative equity from our combined MI and CCI run off businesses.

Again, as we’ve disclosed in our release and I think I've spoken to on earlier calls under GAAP accounting we are required to recognize RFIG’s expected near-term losses which will only serve to increase that segment’s negative equity balance and produce a drag on the consolidated book value after some period into the future.

We do however believe that a better measure of shareholders’ economic interest is indicated by the book value attributable to our ongoing operating segments. And from that I mean, I am looking at it from the standpoint that the RFIG negative equity will ultimately be restored to the consolidated book value either through recognition of operating profits over the duration of the run off period or in the event that ORI relinquishes control of the entity at some point in the future.

Moving into the asset side of the balance sheet, our investment portfolio remains largely unchanged at year-end 2012 with approximately 93% of the portfolio directed to fixed maturity securities and short-term investments with the remaining 7% invested in equity securities. And as you can see the portfolio continues to benefit from significant market appreciation.

Moving into the liability section of the balance sheet, I would just comment that the one year development of prior year-end loss reserves related to our ongoing core operations and by that I mean those of the

General and Title Insurance segments. Those reserves developed favorably during the fourth quarter and the full year of 2012 similarly to 2011.

I would just point out that the trends that we discussed during the third quarter call continued into the fourth quarter. In other words, we are experiencing somewhat lower favorable development in General Insurance reserves and that has been offset to a degree on a consolidated basis by lowered efficiencies recognized in the RFIG run off operations.

We ended the year with the debt-to-equity ratio of 15.9% and a debt-to-total capitalization ratio of 13.7%, both of which are largely unchanged in some mid-year 2012, and that's when we had just paid off our $316 million, 8% convertible debt issue. We continue to believe that these leverage ratios provide us with sufficient financial flexibility to raise additional debt capital if the need should arise.

From a cash flow perspective, this morning we have reported consolidated operating cash flows of a positive $532 million for our 2012, compared to a full-year deficit of $94 million in 2011. This turnaround resulted from increased operating cash flows across all 3 of our segments.

At year end 2012, we ended the year with approximately $234 million of cash in highly liquid securities held by the ORI holding company and its non-regulated subsidiaries. These accumulated balances are available to satisfy various interest system balances and other operating needs of the parent company. And as most of you know, the dividend paying capacity from our regulated subsidiaries to the holding company is dictated by state regulation.

For 2013 our estimated dividend capacity approximates $350 million and I would contrast that to the 2012 dividend capacity of $361 million. Now during 2012 we actually paid dividends to the holding company, to an amount of total of $195 million and over the last 5 years those dividends to the ORI parent have averaged right at $185 million.

So to put things a little bit into perspective, the 2012 dividend amount again at $195 million represents just 56% of the 2013 dividend paying capacity. So in terms of cash flows to the holding company certainly the receipt of dividends along with interest income that we receive on intercompany debt which we currently estimate to be roughly $24 million net of taxes for 2013 and those 2 sources provide the necessary cash resources to fund our holding company's minor operating expenses to service the interest on our outstanding debt and to fund, the regular dividend payments, to the Old Republic shareholders.

We believe that these sources are sufficient and sustainable for the foreseeable future to meet our ongoing holding company obligations. That being said let me turn it back to Al for his closing remarks.

Aldo Charles Zucaro
Chairman & CEO
Okay. Looking at my watch here we spent almost 25 minutes on this call already. I think we've provided you with the key points about what's been making our business go and the factors that are likely going to affect it going forward. I think Karl just focused on some of the very key points, important points that go to the management of our enterprise from both a enterprise risk management standpoint as well as from a capital management standpoint and so in light of all those comments from -- that have taken place in the last 25 minutes or so as I say I think it's just as well that we open up this call to your questions and we'll entertain them and I'm sure that from among the 4 of us here we will be able to address them as is most appropriate. So let's do that.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Geoffrey Dunn of Dowling & Partners.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Al, if you could, I guess, 2 questions for you. One, in the title segment, another strong result. So with revenues up, we did see the margins slip sequentially. Was that just like an agency direct business mix issue or was there any kind of catch-up accrual on comp or other expense catch up at the fourth quarter?

Aldo Charles Zucaro
Chairman & CEO

I think you have a little bit of all of those, Geoff. We had some litigation cost that we tried to address in the quarter. Actually, we addressed them in most of the 3 quarters of last year, then recall -- as I recall. So we had some beefing up of the general expense types of reserving, but nothing that is of such a significance, Geoff, that it would have changed the pattern of earnings that you see it's still a strong earnings pattern and as Rande said before, we feel good about what looks like a strong year in 2013.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Okay, and then on the GI side, I guess, 2 questions. One, can you give any color as to any kind of CAT impact on the commercial auto line this quarter? And then, two, as you think about the loss cost pressures on worker comp, are your options basically just to wait this out and let the top line take care of it or is there any incentive to maybe think about shifting mix a little bit to help that even out the results as we go into '13, '14?

Aldo Charles Zucaro
Chairman & CEO

Scott, do you want to take that?

Richard Scott Rager
Executive Vice Chairman

Yes. The first question was, was there any cat exposure with respect to the commercial auto book, is that right?

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Yes.

Richard Scott Rager
Executive Vice Chairman

Yes, nothing material on that issue.

Aldo Charles Zucaro
Chairman & CEO

As well as the other.

Richard Scott Rager
Executive Vice Chairman

Yes, as well as the other is where our operation is, well there is any cat exposures relative to Sandy or some of the storms that hit the Midwest in the fourth quarter of last year would have been truly de minims. The next question was what we intend to do with respect to workers' compensation. Well first of all, I would point out this that obviously your results in workers compensation are based on 2 basic elements from an underwriting perspective it's risk selection and rates. Risk selection from the standpoint of who are you picking and what industries, where do you want your emphasis, where do you want your niche to be. In that respect we haven't really changed our overall book with respect to risk selection for the foreseeable past. Just maintained we tend to tend to do our netting do what we do well, we try to identify where those industries that we have got experience with and stick there to accentuate our specialty aspects. On the rate side, I think the workers compensation issue is merely a question of medical inflation increasing between the mid and high single digit ratios rates for the past several years and workers compensation rates over the same inner most time being relatively stable. I think it's purely a situation where you look at if you look at what's out there, what you predict on the horizon with respect to inflationary costs and go out and get what you believe is an adequate rate for that particular exposure.

Aldo Charles Zucaro
Chairman & CEO

I would add also as you recall Scott and I think we may have mentioned this in either the second quarter or third quarter discussion that we had after the earnings release. That we did have some of our case reserves go south on us and that whenever that happens in an insurance company, Jeff right, it tends to drive, what we set up in terms of what's referred to as an IBNR, right, because you become perhaps a little over, little more cautious. I think that factor had an impact on what happened to our -- to the loss ratio in the comp area too. I think it was a reaction throughout the year right call, I mean it's throughout the year, right, Karl?

Karl William Mueller
Senior VP & CFO

That's right.

Aldo Charles Zucaro
Chairman & CEO

Throughout the year that we reacted mostly to some case reserves on some big ticket items that went south on us as I say as well as some we're suspecting parts of our business, we have accelerated the payment of claims ever so slightly. Whenever you do that also it has an impact on your trends and those in turn will drive the IBNRs I say. So I think it bears our repeating that, that was an issue that was -- those were issues I should say, that were particularly important last year in terms of our reaction to the overall reserve level. Having said that, the question as well you are going to see some more of the stuff and we think that we've got our arms pretty much around the reserve structure particularly in the comp area and that if anything goes boom in the night this year it should not be as big of a noise; I don't think. Would you agree with that Scott?

Richard Scott Rager
Executive Vice Chairman

I would agree that it would be muffled; certainly cold.

Aldo Charles Zucaro
Chairman & CEO

Yes.

Richard Scott Rager
Executive Vice Chairman

Yes. So on an ongoing basis it's purely a question of getting adequate rates and as Al indicated tweaking the experience that we've had previously in terms of the reserves of having anticipated some increased costs going forward based on what inflationary trends we are seeing.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Okay, so maybe not as much pressure as we saw in ’12, but some turns as it’s difficult to get adequate rate so not coming quickly back either?

Aldo Charles Zucaro
Chairman & CEO

Yes, I don't need to tell you Geoff that the earnings process from the time that you, as to rate increase or positive changes in our underwriting selection process and the time when that starts to flow through the income statement right, you are looking at an 18 month period. And basically, that's where we have been over the last 18 months inching up rates, tweaking, as Scott puts it here, on the underwriting side, so you are going to start seeing some positive results from that in 2013.

Operator

Operator Instructions] And we will take our next question from Jim Ryan of Morningstar.

Jim Ryan
Morningstar Inc., Research Division

Good afternoon gentlemen. I liked the format with all of you there, it’s nice. So just to kind of continue a little bit on the workers’ comp, the one question I had, it does show that the earned premium on a sequential basis dropped off quite a bit, is that due to price increases and I am kind of looking at it and seeing that it jumped up in the third quarter and then came back in the fourth, was there something seasonal?

Aldo Charles Zucaro
Chairman & CEO

I think with one of the big drivers Jim for us, as you know, having followed Old Republic for a while is that we do have quite a bit of what we refer to as risk management or alternative markets type of business in the comp and the automobile trucking liability area. And whenever you got that it’s tough on the quarter-to-quarter basis to monitor what's happening to your earned premium line, because that is a very reactive type of business, as the claim costs go up on a particular customer, you are going to get more premium or if the claim cost goes down on a particular customer, when you typically you adjust those rates on a cumulative basis once a year, you have these blips that can take place in the top line which is what you are seeing there. So we would say that that's the main reason why from quarter-to-quarter you get these small variations in the comp and I might say in the AL [ph] area to a smaller degree, but it’s mostly the comp business that is affected by these retro rated or self-adjusting types of products. Correct me if I'm wrong Karl, but then we have quite a bit of a retro adjustment booked in the 3Q that we did not have in the fourth quarter.

Karl William Mueller
Senior VP & CFO

You remember it correct.

Aldo Charles Zucaro
Chairman & CEO

So, therefore, just that one item, I forget what it was, but I think it was in the teens, Jim, that you had in the 3Q that you don’t have in the 4Q right, and that’s simply a reflection as I say of adjusting the -- based on the experience of either a few customers or a lot of customers.

Jim Ryan
Morningstar Inc., Research Division

Makes total sense. A question for Rande. At some point in time, these interest rates are going to start rising a little bit which probably would cut off the refinance market. What are you seeing in terms of the resale market hopefully coming back to replace it; I mean, it probably would be difficult to replace that amount of volume, but on the other hand, the rates are higher. So, Rande, if you could just kind of give an idea looking into 2013, what your thoughts are on that?

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

Thanks, Jim. The MBA's latest predictions for mortgage originations are about a $1.4 trillion for '13 as oppose to a $1.7 trillion that we had. The refinance market was about 70% of those originations. And you are right, as rates increase or as that business sort of runs out, you are going to see a decrease in that business. Rates, probably, hopefully the economy continues to improve, and we create jobs. As that happen, you'll probably see those rates edge up, but I don't think you will see anything until the second half of the year and at that point, when the refinances start to slow, I think this maybe the year when the purchase money transactions start to catch up with the refinance transactions and that of course is good for us. On a refinanced transaction we only issue a loan policy, on a purchase money transaction we issue a owners policy and a loan policy, so there is quite a bit more money there for our work. So, I don't see '13 being the year when we are going to have an issue; I don't see anything on the horizon that should affect the business during this next year to a great extent even though originations probably will be down.

Jim Ryan
Morningstar Inc., Research Division

On the commercial side, just in downtown Chicago here, we have got 2 new developments for the first time in like 5, 6 years office buildings. Do you see that any other places I mean is that something that you think might come back for 2013?

Rande Keith Yeager
Chairman & CEO - Title Insurance Group

We have seen increases in almost every major market; had a very good year in commercial business, our approach is sort of bifurcated and we do have direct operations, we support our agents in their efforts to do commercial business and that business has really shown an increase over this past year; I think low interest rates, a number of factors have made that market pretty attractive. So, I think Chicago in certain way should be a benefactor of that, but certainly, we are seeing a lot of business on both coasts, New York and California as well.

Operator

And we go to our next question from Steven Charest of Divine Capital.

Steven William Charest
Divine Capital Markets LLC, Research Division

I've got a question that cycles back to the last call when we were talking about longer-term trends in workers' comp; are you still of the opinion that these worker comp claims could peak in the first half of this year?

Aldo Charles Zucaro
Chairman & CEO

Well, we tried to say that or Scott and I in particular try to say that; and I think the answer is yes. I think we had a particularly essentially good impact on reserves from a number of events last year, including as I said before, some large case reserves that went south on us and some acceleration of these claims. So we think that over the next several quarters that situation is going level itself out.

Steven William Charest
Divine Capital Markets LLC, Research Division

Some other noise, in other words?

Aldo Charles Zucaro

Chairman & CEO

Yes, I mean, I would like to say it's a blip, this happens to be a blipper; a little more accentuated, but I don't it's -- I don't think we are looking let's say at a systemic problem, let's put it that way.

Steven William Charest
Divine Capital Markets LLC, Research Division

Okay. And related to that, as a highlight last time around claim expense reserves to the capital base ratios of 1.5x as of September; have you seen much more change in that?

Richard Scott Rager
Executive Vice Chairman

I would tell you, Steven, that at year end, the numbers are virtually the same, right at about 1.4x using statutory capital and reserves.

Operator

And we will take our next question from Andy Stein [ph] of First Manhattan Investments.

Unknown Analyst

I just had again a couple of questions on the comp line of business. I mean first of all, do you have favorable or unfavorable development in 2012 for workers comp? And the second question is when you look at the large cases, was there any difference in development in case reserves between the old PMA business and the old ORI business? And is it a case of just integrating an acquisition and difficulties that come from that?

Aldo Charles Zucaro
Chairman & CEO

Well, the first question on loss development and I think Karl addressed that the overall General Insurance Group loss development for a while for the year was favorable again. However, historically in the best of times, the workers' comp line will typically show a deficiency, if only because you are discounting a big chunk of those reserves so just the effect of the discount year-over-year, right. The trick is at least the appearance right of a reserved deficiency. Now, with that law [ph] accentuated last year because of some of these issues that we've talked about just now, the acceleration of, some acceleration of big claims and some of these case reserves going south which generated a higher level of IBNR, of course. Now, then you come to okay where are you putting the IBNR, right because you have to allocate these IBNRs to various accidents used, right and there is no question that most of the increase, correct me if I'm wrong, Karl but most of the increase went to prior years as opposed to the current years. So that's the answer on loss developments. Overall, General Insurance is positive, it's less positive in 2012 than it was in 2011 and '10; okay and most of the negative affect or most of the drop in that favorable development was due to the comp area and not any of the other areas. Okay? As to your question, your specific question on the PMA, PMA is a different book of business for us and we did it from the very beginning take a hard look at it and we have been gradually moving the reserving structure of that business to complement what we have done at Old Republic. Do we need to do a little more there, probably, but is it a huge amount of money that is potentially at risk from a reserve additive standpoint? We don't think so.

Operator

And we will take our next question from Stephen Mead of Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

Just going back to commercial auto and just the variability on a quarterly basis in terms of the claims ratio, what drives that number and there was a pretty big jump from the third quarter in terms of the claims ratio, I mean is this just a function of weather or what drives that?

Karl William Mueller
Senior VP & CFO

In this particular instance, I would say that was a big factor in it. A frequency was up pretty dramatically in the fourth quarter due to some storms that we had moving through the pretty large geographic area and creating some issues with respect to both physical damage and liability at that point in time. Also you have the dynamic to where that business, the economic conditions are such that they are starting to move more free and you will have situations now where you will see that frequency spike up from time-to-time for short periods of time, because of higher miles driven and or newer drivers on the road and you will see that sometimes spike through a nose or blips and we don't think either of those are long-term situations.

Aldo Charles Zucaro
Chairman & CEO

I think if you are looking, Steve, at the exhibit that's posted on the website.

Stephen Mead
Anchor Capital Advisors, LLC

Right.

Aldo Charles Zucaro
Chairman & CEO

Where you are looking at loss ratios in 2012 for the commercial automobile and you are looking at 74.1 in the 1Q, 75.6 in the 2Q. 73.2 in the third quarter and then, boom, 78.4 in the fourth quarter. And as Scott said, you do have some impact year-over-year depending on how bad is the weather and how bad it is in the areas which our trucks travel, bearing in mind, that our trucks are mostly Central USA driven trucks. So if you have bad weather in this part of the country as we have had that can have impacted the fourth quarter in particular. And also, again as Scott mentioned before, we did have, not a big number for us from the storms that occurred but it did have an effect on the trucking part, maybe a point and a half of loss ratio. So that 78.4 you see there probably would have been 77. Now that's still higher than the prior 3 quarters, but it gives you an idea of that the combination of these elements is what drove that loss ratio. So again, we don't think that for sure, we don't think that that is an indication of a systemic ongoing problem for us.

Stephen Mead
Anchor Capital Advisors, LLC

And just from a sort of business standpoint, as you look across your General Insurance business and you go into 2013, where do you see sort of the relative opportunities either to grow the business or to do things in terms of just basically, yes, growing the business which businesses are per say opportunity at this point?

Richard Scott Rager
Executive Vice Chairman

It's funny that you asked because I think in terms of new business opportunities, we are seeing new business opportunities virtually across the entire General Insurance Group whether we realize those opportunities rest obviously surely on underwriting the risk, but there could be a lot of different reasons that we see that those increased opportunities, they could be servicing issues with existing carriers, program product, design issues, people looking to be with the specialty carrier or just normal marketing schedules business referrals et cetera. We see the opportunities regularly and we take advantage of those opportunities. I think we see those, I am telling you we see those opportunities across all lines of our business.

Karl William Mueller
Senior VP & CFO

We do have a couple of niches or 3 or 4 niches really like the construction business for example, with an improvement in the economy you are going to see a lot more building activity and we are seeing it not just in housing but elsewhere that's going to drive what do we have, we have something like $400 million, $425 million worth of construction and rent business at Old Republic.

Richard Scott Rager
Executive Vice Chairman

Yes, that business picks up, we will see it there. We are seeing some opportunities and have seen opportunities in the energy arena.

Stephen Mead
Anchor Capital Advisors, LLC

And that's another good one.

Richard Scott Rager
Executive Vice Chairman

As the economy picks up, we are seeing opportunities with respect to the motor carrier transportation arena.

Stephen Mead
Anchor Capital Advisors, LLC

Yes, I was wondering in terms of the economic sense. As I look at multifamily starts in terms of department activity, I look at the energy space in terms of pipeline building and that kind of; I didn't know where you are in front in some of those favorable trends.

Richard Scott Rager
Executive Vice Chairman

As I said, last year, we saw the opportunities, new opportunities in each of those arenas. So I think you have coupled out with some rate development to the extent required and it's a good fit for us.

Stephen Mead
Anchor Capital Advisors, LLC

Yes, in terms of the way to look at book value, can I just back out the losses of the mortgage insurance business and come up with the numbers that says okay, the core based business has a book value of such and such?

Karl William Mueller
Senior VP & CFO

We have done that for you, chart on Page 7, and that's the way we are looking at it. Trying to get people to focus on the ongoing business which should continue to be a solid foundation and the negative equity, if you will, that RFIG is going to post for some period of time, ultimately goes away, so we think that the real shareholder value exists with the ongoing operating companies.

Aldo Charles Zucaro
Chairman & CEO

But we did not have the time, Steve this past quarter, but we've not given up on the idea of going back to our numbers and in fact providing the shareholders with exactly what's -- I think you are looking for which is okay. How much of the total capital, shareholders' equity of Old Republic was provided by each of the segments including the mortgage guarantee. Now we've done some quick and dirty calculations and I don't mind, we don't mind sharing those with you. Those quick and dirty calculations show that if you eliminate the mortgage guarantee portion of the total Old Republic shareholders' equity account per share and you look at the remainder, right, correct me if I'm wrong Karl. Didn't that show that we had a steady increase in that book value?

Karl William Mueller
Senior VP & CFO

We did at about a 4% compounded annual rate over the past 5 years.

Aldo Charles Zucaro
Chairman & CEO

And that was after taking out the dividends out of that throughput pumping [ph]. So your question Steve is very appropriate and we think as I say we are going to take the time to do that analysis so that when we feel comfortable that we have accounted both debits and credits, you will see that the rest of the business ex mortgage guarantee is still reflecting quite a bit of growth particularly pre dividend payments, which is a good thing in terms of fueling the growth prospects that we have.

Stephen Mead
Anchor Capital Advisors, LLC

Right. Also it provides, yes exactly I mean it provides capital for growth and you don't need to go out and get additional capital.

Aldo Charles Zucaro
Chairman & CEO

Correct. I mean, the only thing we thought about in terms of additional capital from a total capitalization standpoint is that we still like to have a little more money in the kitty, in the cash register, right just in case. We have historically thought of at least 5% of the equity account being in cash, and we have that currently. But we would feel a little more safer obviously from a capital management standpoint to have that additional cushion, so that if the time came and became appropriate and we could raise some money let's say some straight debt $200 million to $300 million we would probably take that opportunity and put it away.

Operator

We will take our next question from John Deysher at Pinnacle.

John Deysher

Two quick questions, one on the investment portfolio, I think you said 93% was fixed income. What's the duration of that portfolio at this point?

Aldo Charles Zucaro
Chairman & CEO

About 4 years still. It hasn't changed very much. And that 93% incidentally is the combination of truly fixed maturity plus…

John Deysher

Short-term investment.

Aldo Charles Zucaro
Chairman & CEO

Right. If you include the short term investments then the duration and the average life becomes shorter obviously.

John Deysher

Right, do you expect it to stay in that range going forward?

Aldo Charles Zucaro
Chairman & CEO

Yes, because we just don't think that you get paid for going out long particularly if you are suspicious as we are that in the next couple of 3 years interest rates are going to start going up because somebody is going to have to account for the federal debt situation. And as you know, our job said [ph] and starts to compete with the private sector in terms of accessing the capital markets, you know exactly what's going to happen to the cost of money.

John Deysher

All right we would agree with that. The second question is on the reinsurance balance recoverable of approximately $3.2 billion. Is there anything going on within the reinsurers that might lead to perhaps an inability to pay any of those balances?

Aldo Charles Zucaro
Chairman & CEO

No. When you look at the -- that $3 billion. I think a big chunk of it comes from captive insurance companies and those are typically all collateralized. So that's a safe type of reinsurance so to speak, we believe. And that's how, that's been our long-term history that we have a rarely lost any money on a captive insurance company.

The other thing is that we have a substantial portion of that $3 billion plus stashed away with the 3 or 4 key reinsurers in the world and that would be the Munich, yield Munich [indiscernible] Re. That would be the general Re. That would be the what you call is Swiss Re and the Hannover Re, which as you know, are among the best players in the business in terms of being well capitalized. The rest of our reinsurance recoverable comes from any number of smaller reinsurance companies and it's been our objective over the years to spread that around so that if any one of them goes belly up or have you is not going to kill us. That's the story with that what is it $3.3 billion or something like that.

John Deysher

So that's money good.

Aldo Charles Zucaro
Chairman & CEO

Yes, we think so.

Operator

We go for a follow-up back to Geoffrey Dunn of Dowling & Partners.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

I just wanted to follow-up and clarify what you just mentioned about debt. Is ORI looking for an opportunity to raise money to bulk up liquidity?

Aldo Charles Zucaro
Chairman & CEO

No, as I have tried to at least Geoff we have a bogie in mind, which is at least 5% of our shareholder's equity account. So that would be a couple of hundred million dollars. And as Karl, I think, mentioned before was that's where we are today. But if we could raise another couple of $300 million and put it away and not use it in our business have it there as sleep insurance at very, at reasonable cost we would do it.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Okay, so [indiscernible] interest rate environment.

Aldo Charles Zucaro
Chairman & CEO

It’s not needed for certainly it’s not needed to create liquidity in the mortgage guarantee business because we are out of that business, okay.

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

Yes, I didn’t expect…

Aldo Charles Zucaro
Chairman & CEO

There is no way that we can resurrect that business anytime soon because it would take as I think we said last quarter-to-quarter before that to make up all the losses that we have booked and then have a capital structure to get back in the business what you are looking at for us is a $600 million, $700 million and we are not about to do that. So that…

Geoffrey Murray Dunn
Dowling & Partners Securities, LLC

I didn’t expect that but obviously if you put on 200 million, 300 million right now debt to capital going to the high teens that’s just a big departure from ORI historically preferring not even to be about 10, 12.

Aldo Charles Zucaro
Chairman & CEO

Well we have always, we have had a at times Geoff as much as 30% of our capitalization in debt. Now that those are bit short-term situations and we did it because we anticipated that we would be able to get out of that box real quick. So we’re not talking about raising it to 30% but anything below, let's say a 20% or below, there is no problem with the rating agencies, and certainly when you have the kind of dividend paying capacity that we have, there is no question about our making good on all that cost to carry. And the cost would be hopefully, we would not do it unless the net cost was reasonably low.

Operator

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

Aldo Charles Zucaro
Chairman & CEO

Okay, well, I don't think we have any, we certainly appreciate, we spent more time with the Q&A than we did in our remarks that’s always good, always better to answer questions and to raise questions. And so we are, as always we are very appreciative of everyone’s continuing interest and following the fortunes of our dear Old Republic. Now with that note we will bid you good afternoon.

Operator
This concludes today's presentation. Thank you for joining and have a nice day.