S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

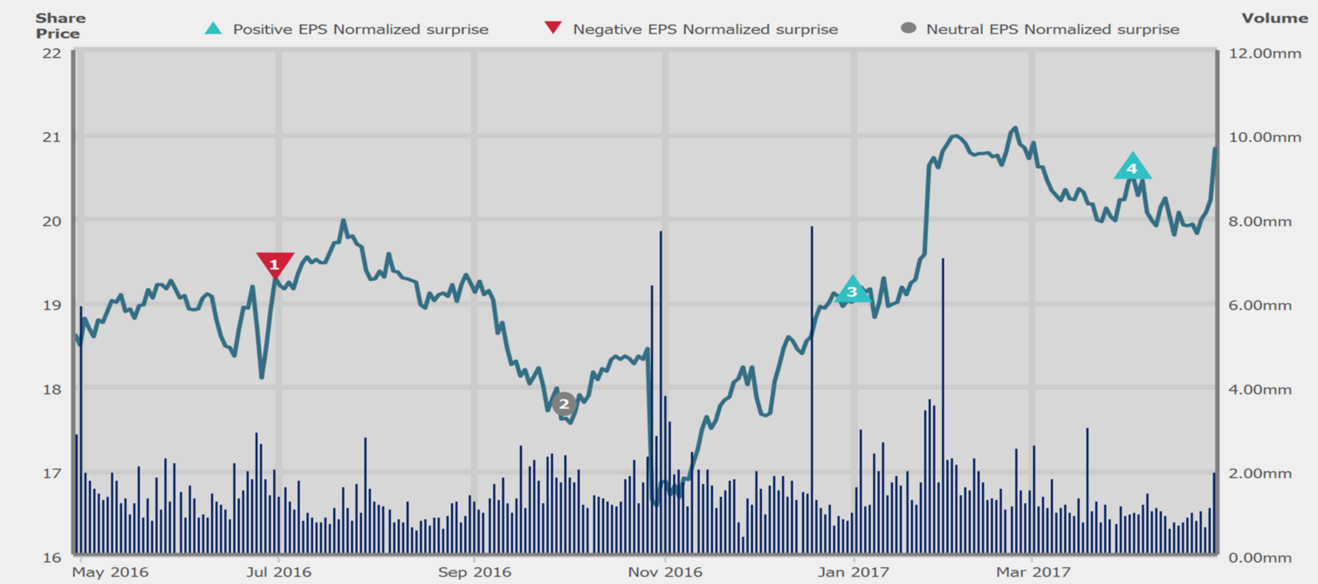
FQ2 2017 Earnings Call Transcripts

Thursday, July 27, 2017 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.36	0.34	(5.56 %)	0.40	1.50	1.60
Revenue (mm)	-	-	-	-	5848.00	5735.00

Currency: USD
Consensus as of Jul-17-2017 7:36 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.32	0.31	1 (6.06 %)
FQ3 2016	0.37	0.37	2 0.00 %
FQ4 2016	0.31	0.43	3 38.71 %
FQ1 2017	0.32	0.36	4 12.50 %

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Marilynn Meek

Rande K. Yeager
Chief Executive Officer and President

ANALYSTS

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

Presentation

Operator

Good day, and welcome to the Old Republic International First Half 2017 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded.

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

Marilynn Meek

Thank you, Lauren. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss first half 2017 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 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 supplement dated July 27, 2017. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Karl Mueller, Senior Vice President and Chief Financial Officer; Craig Smiddy, President of the Old Republic General Insurance Group; Rande Yeager, Chief Executive Officer at the Old Republic Title Insurance Company; and Al Zucaro, Chairman and Chief Executive Officer.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Thank you, and good afternoon from all of us at Old Republic. So to just get the ball rolling, I'll just point to a few key items and takeaways from both the release as well as the financial supplement that Marilynn just mentioned.

Starting with the results for the most recent quarter. We would say that they were relatively stable for the General Insurance business. And in this, I have to say, we were a bit disappointed by the relatively tepid growth at the top of the income statement and -- as well as the bottom line, which was obviously pressured, as you see, by greater claim costs.

As I'm sure that as Craig Smiddy will note in a few minutes, our General Insurance business does continue to improve very gradually on the underwriting front, and that's our main focus, as you know. The slower progress that we're experiencing in General Insurance, however, was remedied as -- by the very fine results we are posting in the Title Insurance part of our business. And in this case also, Rande Yeager will go over the key elements that continue to drive the underwriting results in this part of the business, and of course, in Title Insurance more so than any other Old Republic business. The results from underwriting and related services are important elements since the business is not one that generates the same degree of investment income as we have elsewhere in our business.

And then when Karl Mueller's turn comes, he'll point to some of the more important financial elements of our -- of the makeup of our company's financial wherewithal and -- which is all supportive of the progress that we are making from a consolidated standpoint.

So now I'll -- without much more ado, I'll just turn the discussion over to you, Craig Smiddy, and for your comments on our General Insurance business

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Okay, all right. Thank you, Al. As the press release indicates, the General Insurance Group reflected increases in net premiums earned in the second quarter of 3.7% and year-to-date up 3.5% when comparing this to the same periods in 2016. We experienced greater writings in most lines of coverage, especially in commercial auto where rate increases continue to earn through. However, positive changes were offset by a reduction in workers' compensation writing where rate increases are currently more difficult to achieve in that coverage.

We have experienced strong persistency ratios in our renewal business as well as reasonable growth of new business, including increasing premiums that we're seeing in our newest underwriting operation that we announced back in 2015. As is always the case, all of our underwriting operations are operating in a very competitive environment fueled by a perception of excess capital in the insurance and reinsurance marketplace. But we think that we're more than holding our own in most parts of our business at this point of the cycle.

The group's overall composite ratio increased just over 2 percentage points to 100.1% in the second quarter compared to 97.8% for the same quarter last year. Year-to-date, the composite ratio is relatively stable compared to last year at 98% versus 97.4%.

The group's expense ratio of 26% -- excuse me, of 25.6% for the second quarter was slightly less than the 26% in the same quarter last year. Year-to-date, these results are relatively stable at 25.2% compared to 25% last year, in line with the past 10 years average and our long-term expectations.

As shown in the statistical exhibit, the commercial auto claim ratio increased to 79.8% this quarter compared to 78.4% last year. And in a similar vein, the year-to-date claim ratio came in at 81.1% this year compared to 79.4% last year.

We're experiencing further rate increases in the commercial auto coverage to offset the loss cost trends we've been seeing of late, and our objective remains to bring this claim ratio down to our historical experience in the low to mid-70s. We also think that advances in technology relating to safety and accident avoidance should, at some point, help offset the increases in frequency and severity trends that we've been seeing, particularly with commercial trucking as greater use of newer technology continues, as that's adopted by carriers and as the Federal Motor Carrier Safety Administration's requirements for electronic logging devices goes into effect at the end of this year.

Our second quarter workers' compensation claim ratio increase to 77.4%. This is up from 76.2% in the same quarter last year. Year-to-date, it's at 76.5% compared to 75.3% in the first half of 2016. Our general liability writings are small in comparison to the other lines that I just reviewed. And as such, we experienced more volatility in this coverage. As shown in the supplement, our result in the latest quarter was a claim ratio of 75.4% compared to 52.4% in the second quarter last year. On the other hand, the year-to-date results reflect a lower claim ratio of 65.9% compared to 75.1% in '16.

As Karl Mueller will discuss shortly, it's important to note that all of the claim ratios that we post and discuss are inclusive of both favorable and unfavorable claim development. And as I say, Karl will talk a little bit more about that shortly.

From both a premium and claims standpoint, most remaining coverages performed within our expectations.

In light of the competitive marketplace, all of our underwriting units remain very focused on underwriting discipline, with a profitability focus taking a much greater priority over top line premium preservation or premium growth.

So with that said, I'll turn the discussion to my colleague, Rande Yeager, for his comments on our high-performing Title business.

Rande K. Yeager
Chief Executive Officer and President

Great. Thank you, Craig. I appreciate it. Well, I'm happy to report that the Old Republic title business achieved new highs in each of the first 2 quarters for pretax operating income. After recording $40.4 million of pretax operating income in this year's first quarter, we followed that up with a gain of $65 million in the second quarter. First quarter operating income represented an 89% increase over the previous year's quarter, while the amount posted for the second quarter represents a 46% increase year-over-year. With 2 record quarters like that, I assume we set another record for profitability in the first half of the year. And pretax operating income of $105.5 million this year represents a $39.4 million or 60% increase over 2016's midyear high watermark.

I guess, noteworthy that the mortgage banker's association originally recorded that residential mortgage originations were down about 14% for the first half of the year. And most of that decline can be attributed to refinance transactions, which were down about 40% for the first 6 months. On the other hand, purchase money transactions were up year-over-year by about 10%.

Our commercial activity, on the other hand, was flat, and from everything I've read, is expected to lag a little bit in 2016 -- or from the 2016 results. In light of this, we're proud of the fact that our revenues were up in both residential and commercial title operations. Second quarter premium and fee revenue was $55.6 million. That was an increase of $31.1 million or 5.9% over 2016. And for the first 2 quarters, total premium and fee revenue was up $74.9 million or 7.5% over 2016.

And there have been a number of factors that have contributed to our gains. First quarter market share reports show that we grew to a 15.3% share versus the full year share that we recorded for 2016 of 14.8%. Average premiums were up as orders trended away from the refinance activity that we've been experiencing and towards purchase money transactions. A lot of the credit for growth in average premium levels goes to our commercial title operation, where we continue to exceed our own lofty expectations. Average premium on commercial transactions climbed over 10% year-over-year. And again, following the favorable trends we've been experiencing in our claims ratio over the past few years, the first half of the year provided more of the same. Favorable claims provisions have certainly proven themselves not to be an aberration in the title industry or even to ourselves. We think that tightened lender standards and better technology, improved internal auditing controls have all led to a more predictable and improved result. It's our job as an insurer, probably as it would be in any industry, to select and monitor and control the risk that can be related to claims or operations. They go hand-in-hand and affect our results proportionately. We don't focus on one area exclusively. And when things are going as right as they are now, we're active on all of our cylinders.

As for our other ratios and metrics, they have all improved as revenues and profits increase. And that's a good sign as they indicate that our management is operating as it should be.

Well, in summary, what's up for the future with title segment? And all I could say is we promise that we'll do at least as well as the market will allow. Certainly, our objective is to maximize our success under a variety of market conditions. But right now, I have to say that it's a pretty steady course without the potential for a whole lot of surprises.

And that sort of does it for the report on Title Company. With that, I'll turn it over to Al for comments on the Run-off business

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So let me talk a bit about that business. We -- the MI portion of this segment continues to move along on the basic runoff model that we constructed back in 2011 or thereabouts when the business was moved to a run off mode. And as we look ahead, we anticipate a fairly decent housing and related mortgage banking sector just as Rande explained. And as a result, we still believe that this business is likely to run off positively until the policies that remain in force today ultimately drop off the inventory by 2022 or thereabouts. And -- so that between now and then, we're reasonably certain that we are -- I should say, we're real certain that we're going to figure out the most appropriate way for activating a best long-term outcome for what we consider to be a most valuable and very viable operating franchise that we have in our RMIC companies.

As to the other part of this run off, mainly the consumer credit indemnity or CCI portion of the business as we call it, that run off continues to perform as anticipated, but -- and that means in a fairly volatile mode. And among other things, of course, what's driving that volatility, to a large degree, is the fact that we're still dealing with an 8-year plus litigation saga with one of our country's largest banks, and it's ill-fated purchase of those countrywide mortgage banking business subsidiaries that it acquired during the Great Recession years. So far, obviously, a mutually satisfactory settlement of the dispute has been challenging and obviously has eluded us. It just remains to be said -- to be seen whether our 2 sides in this saga will be able to see eye to eye and come to a reasonably fair resolution and provide the necessary financial redress that each side is looking forward to. Having said that, I do have to say that we're not without hope that this, as well as a much smaller dispute in the CCI area with another former customer, can yet be resolved within realistic parameters of indemnification.

That's about it with respect to this run off business. It's fundamentally steady as she goes, and we think we'll come out of it okay.

So I think we can continue this discussion now with you, Karl, and for any -- for your additional comments on the financial aspects of our business.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Sounds great, Al. As was mentioned earlier and as usual, I'll focus my comments this afternoon on some of the key elements of Old Republic's financial position.

So starting with the balance sheet. The investment portfolio grew by approximately $182 million over the first 6 months of this year, $74 million of which rose from market appreciation. Fixed maturity and short-term investments make up right at 75% of total invested assets.

I would say the overall credit quality retains its A rating overall with an average maturity of almost 5 years. Equity securities make up the remaining 25% of the total portfolio, and that's up from approximately 23% allocation at the end of 2016. The equity portfolio grew by $285 million over the first 6 months of this year to almost $3.2 billion as of June 30. Of that growth, approximately 18% is attributable to market appreciation. I will say that we remain focused on high-quality dividend yielding stocks.

The portfolio at June 30 consists of a few more than 100 individual equity securities, and those represent primarily blue-chip companies, a REIT index fund and utilities. We manage the equity portfolio to -- within internally developed risk tolerance levels. As of June 30, we are trending towards the top end of those levels.

Net investment income grew about 6% period-over-period, and that's largely attributable to a rising investment balance in a relatively stable yield environment. Another contributing factor impacting investment income is the increased allocation to state and muni tax exempt securities that generally carry a lower stated yield and are reported as held to maturity investments on the face of the balance sheet.

The balance has grown from $629 million at the end of June 30 of last year to almost $1.1 billion this year. They represent about 8% of the portfolio as of midyear 2017. So as a consequence of this changing mix, the overall pretax yield on the portfolio has declined slightly year-over-year. However, these securities do tend to produce better post-tax yields. And I would say, the vast majority of these munis are held in our General Insurance group, which is also a contributing factor in the moderating growth in that segment's net investment income.

Moving to the liability side of the balance sheet. The consolidated claim reserves experienced favorable development overall during the second quarter and first 6 months of this year. The effect was to reduce the reported consolidated claim ratio by 0.2 percentage points for the quarter and 0.6 percentage points for the year-to-date period. This compares to favorable development of 1.7 and 1.0 percentage points for the same periods of 2016.

As noted in this morning's release, the General Insurance group experienced unfavorable development for both 2017 periods. That development is largely centered in the commercial auto, in other words, our trucking operation, the general liability and the workers' comp insurance coverages. And that said, we believe that we're being more assertive in addressing issues as they become evident and are optimistic that these unfavorable development occurrences will moderate, if not turn themselves around as the year progresses.

On the other hand, the title group claim reserves reflect favorable development as we've noted in the release. These developments are reflective of a continuation of favorable loss development trends that we've seen in recent history. As we've done in the past, we draw your attention to Page 5 of the financial supplement and to the line that's titled Reserves to Paid Losses Ratio. This ratio measures the carried reserves and relationship to the average of the past 5 years paid claims. In our opinion, the higher the ratio, the greater the Title Insurers' ability to meet its obligations to policyholders. And the ratio that we posted as of June 30 is 9.4:1, and that remains essentially unchanged from year-end 2016. And again, we believe that's indicative of the segment's strong reserve position.

Claim reserves in the mortgage insurance business of the RFIG run-off segment developed favorably during 2017, as we've noted, although to a lesser degree as the book value of the business continue -- excuse me, as the book of business continues to shrink.

Turning then to operating cash flows. These were up by $95 million to $259 million for the first 6 months of this year compared to the same period last year. The increase was driven primarily by a combination of higher net written premiums and lower paid losses.

And finally, Old Republic's book value per share at June 30 increased by 3.8% to $17.85. And we've summarized the main elements of this increase on Page 7 of the release. The capitalization ratios that we show in the table on Page 7 are essentially unchanged from those reported at the end of 2016.

So those are the highlights I want to address, and I'll turn it back now to Al for some additional comments.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So there you go. That's our embroidery on this morning, this earnings release. I have to say that the totality of our underwriting focus as is shown on the various pages of the earnings release remains very stable. For example, if you look at Page 5 of the release, you can readily see that the consolidated composite ratio of claims and expenses to premiums and fees continues in the proximity of about 95%. And we think that this is reasonably good in context of the underwriting and overall economic cycles in which our entire business is operating. This is especially so we think in the context of the positive operating cash flows that our collective businesses are contributing. Again, if you look at the earnings release on the bottom of Page 5, you'll see that if we exclude the negative cash flows, which is expected in the run-off segment, that the consolidated business, the other parts of the major parts of the consolidated business is producing operating cash flows that were about 46% higher, $320 million roughly for the first half as we show at the very bottom of Page 5. And of course, this level of cash flow is providing very good operating liquidity to benefit both additions to the investable funds account as well as our ability to upstream sufficient dividends to the parent holding company for shareholder dividends and debt carrying costs that we need to honor.

Also, from a liquidity standpoint, I might note that in addition to Karl's points just now, we do have ample liquidity funds in the nonregulated parts of the consolidated ORI business. And those are sufficient in our view to take care of possible cash calls from capitalization standpoints as well as for any midterm capital support needs or commitments that we currently have to various insurance underwriting subsidiaries.

Overall, we think that the North American economy to which we are committed and in which our focus remains, is likely to remain in a slow growth mode for the foreseeable future. But nonetheless, we believe that our services in some of its more important industry sectors should really allow us to grow the consolidated business at a faster clip than the economy at large. So when all is said and done, we are able to manage our business on the strength of a very strong balance sheet, as Karl just mentioned. And this will certainly continue to allow us to compete on a level playing field with all comers in the various areas of underwriting and related services where we have long-term expertise.

So let's see. So let's stop on this, what I think is a positive note on our outlook for our business, and let's turn it to any questions that may be out there among the participants in this discussion today. So operator, are you still there?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Greg Peters with Raymond James.

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

I have a number of questions. I'll try and limit it to a few and then re-queue if necessary. Karl, I was listening intently to your commentary around the general insurance reserve development and was -- and certainly noted your comments that you expect the reserve development trends to become more favorable in the balance of the year. And I'm just curious what kind of commentary, additional commentary can you provide that gives you the confidence that those trends will indeed improve.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Al, you want me to take that one?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, yes, yes.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. Well, I think we take a critical look at our reserve position each and every quarter and feel very good about our process overall. In terms of what's driving some of the development and -- it really is going to vary from one type of coverage to another. In short-term business such as our auto physical damage coverages, it tends to develop a lot more quickly than some of the other longer tail lines of business. So from that standpoint, we've seen some trends that we've tried to address as soon as the evidence presented itself, and we think we've done that. We've also taken action relative to case reserving in instances where that was necessary. And all of that is factored into our decision-making process when we set the reserves each and every quarter end. So all that to say that we feel very good about the process and feel as though some of the issues that we've been addressing are closer to the end than the beginning.

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

I appreciate that color. As observers of your company, we've been surprised by the adverse development and have expected it to start to improve. I guess, the second quarter kind of caught us by surprise in that regard. But I'll take you up for your -- at face value for the comments you made. On the premium side, is there something going on in the workers' comp line? The loss ratio is up and the premium is down. Is there some accounts that you've been losing? Or is that just general market pressure that's caused the earned premium to be down quarter-over-quarter?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Why don't you answer that, Craig, since it's right up your alley?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Sure, sure. Greg, it's probably a combination of those things that you referenced. We still have been experiencing a very competitive environment in our large construction book of business, and that will result in lower writing because, as I mentioned in my commentary, we will not chase after retaining business or writing business if the bottom line profitability isn't there. So that's an example of where there's reduced writings. As I think we also mentioned in the release, the oil and gas business has offered less opportunities to write business and continues to pull back in the U.S. or moderate. And then the other issue that I mentioned in my comments is that you look at what the rating bureaus are doing, and for the most part, they're filing rate decreases in a lot of states because of favorable results that have been coming through on workers' compensation. So the negative part of that for us is that it's difficult to get rate increases, as I mentioned on that line of business. So you don't have the top line growth coming either organically or coming from rate increases. And as such, you have a more muted top line on that line of business.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Let me add, Greg, a couple of thoughts as I reflected on your question that Karl addressed before and addressed it correctly, I might say. The one other thing that we focus on and I think you and others need to focus on is the fact that quarterly trends and happenings really don't mean very much. And I think you need to look at the quarters in the context of similar quarters in the past and what they indicate occurred for the full year. And I know that you -- since you, in particular, have followed the company for a long time, that if you focus on the reserve development percentages that we have been posting for quite a number of years and you focus on the annual amounts or percentages of either positive or favorable or unfavorable development, you will see that -- particularly since we took a big hit in 2014, that the trend has been definitely moving downward fairly strongly. And I think that's why Karl said what he said about being optimistic, that this thing has been and will continue to turn itself around. For example, we went from -- I'm looking at some numbers that I picked up, as Craig was talking just now. If you go back to '13, we had a 0.9% favorable development. And then, wham'oh, in '14, we had an unfavorable development of 3.9 points. And then in '15, that improved to a much smaller, less than half unfavorable development of 1.5 percentage points. And then last year, in its totality, we had 0.3%. So our guess is that for at least on a full year basis, we should continue to see that kind of alignment in trends of developments.

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

Thank you for the follow up commentary, Al. That was helpful. I just wanted 2 other areas. I'd be remiss if I didn't lob a question in Rande's direction. Specifically, the claim ratio is continuing to do quite well in your business, Rande. When I think about where I should peg from a forecasting perspective, a claim ratio, should I look at the paid loss ratio as sort of the benchmark, because it's certainly running a little bit higher than your claim ratio? And maybe that's the true benchmark, but I thought I'd ask you for your opinion.

Rande K. Yeager
Chief Executive Officer and President

Yes, that's probably right. We only -- we recognize -- we've got such a long tail on losses in our business, Greg, that we can -- 8 years ago, 5 years ago, 10 years ago with 20-year tail, makes it more difficult to kind of peg those loss provisions on an annual basis. So we're constantly doing adjustments that may not be as current as you might be able to peg with current type of evaluation.

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

Right, Rande, and...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I'm sorry, go.

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

Go ahead, Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, no, go ahead.

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

Okay. And Rande, just on the -- it seems like there's some headwinds on refinancing and purchases and order flow, yet you're gaining market share. Is your expectation that that market share trajectory or continued growth is going to continue for -- through the next year or so? Or is that -- are you hitting an inflection point, where your market share will stabilize?

Rande K. Yeager
Chief Executive Officer and President

It's certainly a goal, and we're constantly improving the way we do business to attract new customers and more business from existing customers. And so we always anticipate that we're going to be able to grow market share. And you've got to look at it as a trend instead of maybe quarter-to-quarter because it will vary amongst the companies and depending on the mix and where our markets are strong. If Florida is doing really well, that helps us. Different things influence market share. So we don't really drive the company by market -- going after market share. But we certainly see a trend upwards, and we work hard to improve everything. So that's just one of the elements we're after.

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

Perfect. And the final question, I promise. Al, in your comments regarding RFIG and specifically RMIC, you used a word that caught me by surprise, activating. Can you please provide some additional color about what you meant by that?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, I meant activating in some fashion outside of the Old Republic holding company system. We think that down the road, there's going to be a basis for activating that company in one fashion or another, even though we do not, at the moment, have any aspirations to forcefully reenter the business.

Operator

[Operator Instructions] It appears there are no further questions at -- I apologize. We do have follow-up question from Greg Peters with Raymond James.

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

I didn't want to hog all of the Q&A time, but...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

But you can, Greg. Go ahead.

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

Just a follow-up. When I think about the General Insurance business, you obviously have a focus on the 3 principal coverages, the commercial auto, workers' comp and general liability, but then you also identify the other coverages. And I'm just curious, if the expense ratio in the 3 main businesses is different than the expense ratio in the smaller other businesses...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, there's no question that some parts of the business, both for us and for the industry at large, carry a higher expense ratio. And that's driven by, one; market considerations on the one hand, i.e. competition. But just as importantly, that's driven by the long-term claim cost component of underwriting. So if you have a business like, let's say, surety, which is fundamentally a claims or a loss mitigating type of business, you will tend to see there a higher expense ratio than you will see in workers' comp, where losses will go anywhere between 70% and 80%, depending on how good or bad the book of business is and where the expense ratio, particularly driven by the commission levels, it will be on the low side. So we try to grow our business in terms of our risk appetite. And part of our -- one of the important jobs we have as underwriters is to be selective about those types of coverages that we will emphasize or deemphasize, but also take full advantage of the law of large numbers and the absolute necessity, just like in the investment business, to diversify the book. And when you diversify as you change some of those diversification aspects, you will inherently change the overall expense ratio. But in total, we think that, long term, as we -- I think I've said in all of our management letters, year in and year out, we think that an expense ratio of 24% to 25% for us is probably right given the current mix of business, which we incidentally do not expect to change. That's a long-winded answer to your question about what to expect on the expense ratio.

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

I appreciate your long-winded answer. And as just a follow-up to Craig's comments in the opening or prepared remarks, I know you talked about the electronic logging devices. I'm just curious to what extent that could have an impact on driver behavior? Or put in a different way, in your experience at Old Republic, what percentage of the drivers actually try and skirt the current regs in order to load up on hours?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

Yes, Greg, I'll try to give you a little more color around that. This initiative has been in the works for a while, and most of my comments here relate to the trucking business. And it's the case that -- I would say the majority of our fleet that we insure already have onboard, automatic onboard recording devices. And as you may know, part of the Federal Motor Carrier Safety Administration requirement that the electronic logging devices are implemented by the end of this year is that, if those vehicles already have the automatic onboard recording devices, they're grandfathered to move to the electronic logging devices by the end of 2019. So what it is, is really a much more gradual impact on the business when it comes to this particular technology, and most of our fleets are already operating with some form of technology. So as we continue, I don't know that the ELDs are going to have that much of a different impact than the automatic onboard recording devices already have in the fleets. There probably will be more of an impact on the single unit and smaller trucking fleets that maybe have not yet adopted the -- any automatic onboard recording device where they will, for the first time, implement the ELD by the end of this year. But again, the vast majority of the trucks that we insure on the road have -- do have something, and therefore, I think it will be a much more gradual impact in that respect.

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

And as a follow-up, for your commercial trucking accounts, to what extent are you aware of how active or how involved they are with managing driver cellphone usage while they're driving? Do they have programs in place? Do they have mandates in place, et cetera?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

I would tell you that, virtually, every one of our fleets have this issue at front and center within their safety program. And certainly, our folks that focus on risk control and safety have it at front and center of their safety initiatives as well. So distracted driving is one of those things that has, I believe, contributed to the increase in frequency and severity that we see in the marketplace in general. And that is recognized by the industry, and there are numerous technologies and different types of safety standards being enacted to try to mitigate those issues. And then, of course, you have a lot of other technologies that are accident avoidance types of technologies that also are being taken up and ever increasing in the vehicles as well that should help mitigate the frequency and severity that's been caused by distracted driving.

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

Craig, do you think we're in the early innings of the usage of that type of technology? Or do you think we're in the middle stages?

Craig R. Smiddy
President & COO of Old Republic General Insurance Group Inc

I think depending on what new technologies continue to appear on the shelf. With respect to existing technologies, I would say that we're in the middle innings. And again, it's very similar to the feedback I gave you on the electronic logging devices and the automatic onboard recording devices. It's the case that the larger fleets have implemented many new technologies, and that continues to progress down to smaller fleets as time goes on.

Operator

And it appears there are no further questions at this time. Mr. Zucaro, I'd like to turn the conference back over to you for any additional or closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, thank you. And thank you, Greg, for bringing some outside life into our discussion. Appreciate that very much. And the first thing I have to say, given the dearth of questions other than yours, Greg Peters, that, that would seem to imply that we're doing a reasonably good job of reporting on our results in a straightforward fashion and focusing on both the formal earnings release, as well as in our commentary, on what we think is important to understand what is happening with our company and what is likely going to happen to it going forward. So on that note, again, we thank everyone for participating in this call, and we look forward to our next semiannual discussion, which will take place in January of next year after the full year results are published. So thank you, and you all have a good day.

Operator
And that does conclude today's conference. We thank you for your participation.