S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

FQ3 2016 Earnings Call Transcripts

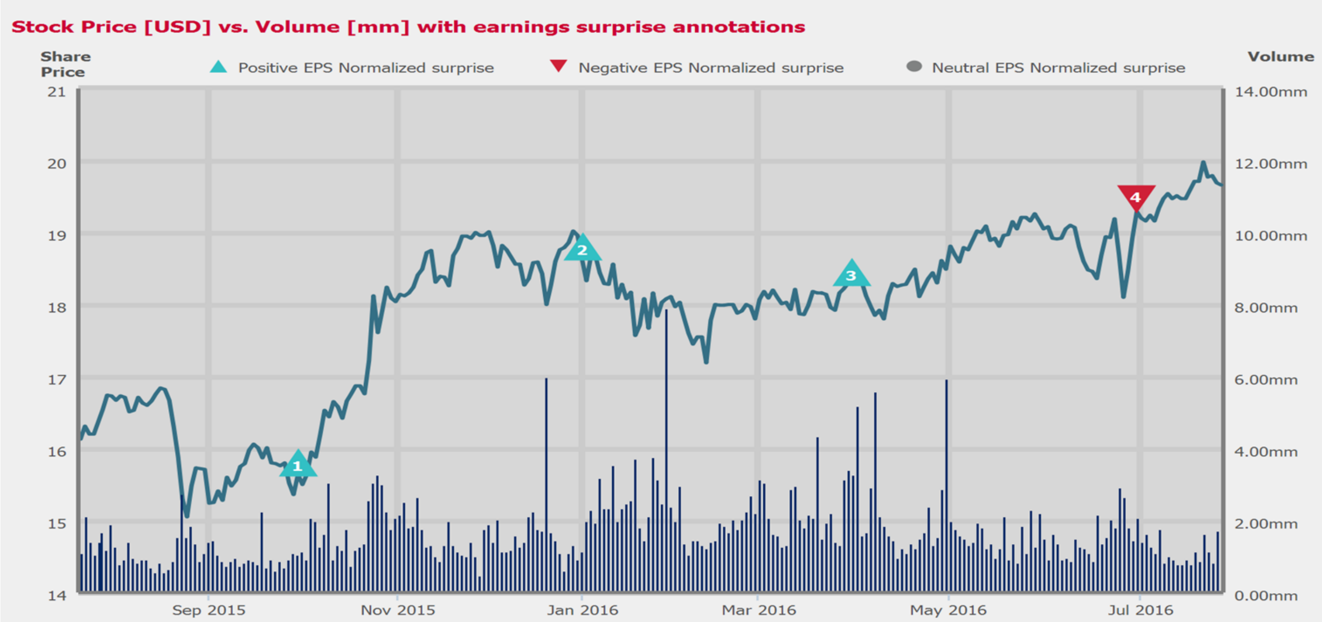
Thursday, October 27, 2016 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.37	0.37	0.00	0.36	1.40	1.48
Revenue (mm)	1570.00	1488.70	(5.18 %)	1533.00	5959.00	5862.00

Currency: USD

Consensus as of Oct-27-2016 3:53 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.27	0.35	1 29.63 %
FQ4 2015	0.27	0.29	2 7.41 %
FQ1 2016	0.28	0.33	3 13.79 %
FQ2 2016	0.32	0.31	4 (6.06 %)

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

Presentation

Operator

Good day, and welcome to the Old Republic International Third Quarter 2016 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded, and would now like to turn the conference over to Marilynn Meek with MWW Group. Please go ahead.

Marilynn Meek

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Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss third quarter 2016 results. This morning, we distributed a copy of the press release and posted a separate statistical exhibit, 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 exhibit dated October 27, 2016. Risks associated with these statements can be found in the company's latest SEC filing.

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 of the Old Republic Title Insurance Company; and Al Zucaro, Chairman and Chief Executive Officer.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, thank you, and good afternoon to everyone. As was just noted, there are several of us here that will participate in this discussion of the morning's release. And as always, we'll make a few remarks that highlight the most important points in the release. Again, as was said, we're assuming that everybody has got the news release in front of them or has access to them, as well as has access to the additional numerical data that's included in the supplemental statistical release that we posted on our website.

I'll start by just reiterating a few big picture items and some takeaways from this morning's release. I have to say that after we saw the initial market reaction to our release, we strapped on our parachute, and boy oh boy, you think that the sky was falling, given the market's reaction, as I say. Obviously, the results for this most recent quarter were somewhat below par for our General Insurance business, but our Title business and -- as well as the RFIG Run-Off book did more than compensate for the shortfall in General Insurance.

As Craig Smiddy will comment in a few minutes after I'm through here, we don't see the General Insurance shortfall of this most recent quarter to be a bad omen of things to come. We think we've got matters well in hand and are and have been taking corrective measures where they're needed on the pricing and the risk selection fronts, which are the usual places where we start to mend fences in our business. This is always an ongoing process. And that process is, of course, to continually fix what needs fixing, so as to provide a reasonable basis for generating long-term underwriting profitability of the business.

And in this, I have to say we are encouraged by the trends we're seeing, particularly as these apply to prior period's claim development patterns, which, as we will discuss and as you can -- as you, I'm sure, can see in parts of our release anyway, are moving gradually towards much greater reserve adequacy than we've experienced in the past couple of 3 years or so.

With regard to the consolidated book of business, we still are very positive about Old Republic's prospects. We think that the North American economy we practice in is likely to remain in a relatively slow-growth mode for the next several years. But then our services in some of its more vibrant, more necessary parts, and those certainly include housing, construction, transportation, health care and in the -- as well as in the alternative market insurance solutions we provide for large American -- North American corporations, that all of these parts of our business should enable us to grow the overall Old Republic enterprise at a faster clip than the economy at large.

Another element, I might say, in our confidence comes from the very sturdy balance sheet we've built over a long time, and that balance sheet does allow us to compete on a level playing field with all companies in our areas of underwriting and related services expertise.

So big picture-wise, we feel good about our business, and we see this latest quarter is just a little bit of an uptick in an area of it that we think we can fix.

So on this note, I'll turn it to 1 of my 3 colleagues here, Craig Smiddy, to begin a discussion of our General Insurance business in addition to what is in the news release this morning, okay? Go ahead, Chris -- Craig.

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

Okay. Thank you, Al. As the release points out, the General Insurance group experienced a small reduction in net premiums earned in the latest quarter. As we stated, the result was primarily from lower writings in our large construction business as well as our energy services book of business. Nonetheless, as you can see, the year-to-date net premiums were up.

While rate increases are moderating on the workers' compensation line of coverage, we continue to obtain strong rate increases on the auto liability line of coverage to offset the severity trends that we've observed for the last several quarters. We also continue to experience very good retention ratios on existing accounts as well as reasonable growth of new business. But as always is the case, this varies, of course, by line of coverage and book of business. Generally speaking, we continue to operate in a very competitive insurance marketplace.

The group's overall composite ratio rose to 98.1% in the third quarter of '16 compared to 96.5% for the same quarter last year. Year-to-date, this ratio rose to 97.7%, a little more than a point higher than last year's. For both 2016 periods, an improving claim ratio was more than offset by a rise in the expense ratio. As we noted, the expense ratio is being driven principally from a new start-up operation, higher litigation costs for a one-off case and changes in the mix of coverages, which had varying production expenses.

As shown in the statistical exhibit, the commercial auto claims ratio rose in both reported periods of 2016 relative to 2015. As we commented on now for several quarters, we're experiencing increased severity trends and these are not abating. So we continue to obtain rate increases to offset the higher cost we see, and we will experience the favorable compounding effect of these rate increases as the premiums earn in.

In our commercial auto book of business, we have a strong track record for quickly responding to loss trends and that's no exception this time around. As I should also add, to mitigate catastrophic severity, a matter that has gotten a lot of attention lately, we avoid deploying policy limits greater than $1 million on the vast majority of our auto liability policies. And where we do provide limits greater than $1 million, we have a significant amount of quality external reinsurance in place.

In line with our previously stated expectations, we've experienced improved workers' compensation claim ratios as shown in the statistical exhibit. As is evidenced in this improved result, we have become better at anticipating potential development and, therefore, we don't anticipate a repeat of unfavorable development in the fourth quarter. For the general liability line, the claims ratio declined when compared to third quarter of 2015 and was relatively stable when compared to year-to-date 2015. Through the first 9 months of this year, all remaining lines of coverage continued to perform very well for us and that's from both a claim standpoint and a premium standpoint.

Looking to the near term, our overall focus for each of our operations and each of our lines of coverage remains on producing favorable underwriting results.

So I think that generally covers it, Al, for the General Insurance group, and I'll turn it back to you.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, I guess, Rande, why don't you take up Title business contribution [indiscernible]?

Rande K. Yeager
Chief Executive Officer and President

Sure, I will. Much of the mortgage origination activities this year can be attributed to the interest rates, and they've averaged about 3.6% on a 30-year fixed residential limits, about 10% less than they were last year. If you take the end-base forecasts for the market through the first 3 quarters of 2016, you find that residential purchases and refinances are up considerably over 2015. Refinance has been bolstered due to the increased equity in the homes, not just interest rate. And that makes refinancing possible for houses that were -- previously had negative equity and they weren't eligible for refinances.

As far as our commercial unit is concerned, it continues to thrive. It's a part of our business that once again is having a remarkable year as we build on the past achievements. And we're cementing the profitable track we've laid during the past 6 years of growth in this unit, particularly. All this goes a long way towards explaining very good title operating results we've posted and all-time records were set for profitability and revenues. We beat previous records set in the third quarter of 2015.

This year's third quarter premium and fees were about $22 million, or almost 4% better than 2015, and pretax operating profits were $58.5 million in the third quarter and that compared to $55 million in the third quarter of 2015. Again, that was the previous high watermark for our operations. That was an increase of a little more than 6%. And year-to-date, we're having a great year, our revenues and operating profits remain ahead of the all-time record pace set in 2015.

As for some of the ratios, the expense ratio for the quarter was stable. It was 86%. It was 85.9% in 2015's third quarter. The claims ratio for the same period was 5.2 versus 5.6, an improvement over last year. And these key elements of underwriting and service profitability are obviously trending positively, pretty much as we expected they would early in 2016 and as we reported.

So I'd say in summary that the Title performance that we've inked in the first 9 months of this year sets the stage, we think, for achieving record results for 2016. We're all very excited about that.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, on that positive note, [indiscernible] and addressed the RFIG part of our business. And on that score, as we show on the release, the MI, the mortgage guaranty portion of the run-off is progressing fairly closely along the path of the run-off model we've had in place since 2011. And right now, quite frankly, absent any national housing mortgage banking calamity, which we just don't see around the corner, we think that this business is likely to run-off positively until the remaining policies in force drop off to a small number of them by, let's say, 2022 or thereabouts. But in the event between now and then, we'll figure out the best way for a best long-term outcome for what we consider is a very valuable and very viable operating franchise in the mortgage guaranty business.

The other part of the run-off is represented, of course, by the consumer credit indemnity or CCI product as we refer to it. And that is also proceeding as anticipated, pretty much along the same trend lines in terms of claim emergence patterns as we're -- as we've been experiencing in mortgage guaranty. But the main exception and the main difference is -- with respect to this business is that we're stuck with one 8-plus year litigation saga, if you will, that we've had to deal with in a commercial dispute we've had since the inception of the Great Recession with the Bank of America folks, and it's their ill-fated Countrywide mortgage banking subsidiary. And at various times, some of you may recall who listen to these calls, at various times during the last couple of years, we've -- we had thought that a mutually satisfactory settlement could have been achieved. But unfortunately, the 2 sides have remained at loggerheads and far apart in their expectations of monetary redress in this saga.

So it now looks like this is likely headed toward a judicially mandated resolution whenever the court calendar allows in the next 18 months or whatever longer period may be required by the ongoing -- trust me, it's an ongoing avalanche of legal motions and counter motions and information don'ts, and on and on it goes to the pleasure of legal beagles on both sides of the deal. So it's all pretty much and pretty sad commentary on dispute resolutions emanating from the very bad lending practices, which had a lot to do with the Great Recession a number of years ago.

But this too shall pass, as the saying goes, and Old Republic will go on to bigger and better things, as the saying goes. So on that note, let me turn it over to you, Karl, and you can highlight some of the key points in our financial situation.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. Very good. Thanks, Al. So let's take a moment to look at a handful of key areas.

First is the fact that our commitment to maintaining a strong balance sheet remains unchanged, and that strength begins with the high-quality, liquid investment portfolio that we've consistently assembled over many, many years. The fixed maturity and short-term portfolio makes up approximately 78% of the total invested assets at the end of September. It is a well-diversified portfolio that has an average maturity of almost 5 years with an overall A credit quality rating. Equity securities now make up right at 22% of the total investment portfolio, and that's up from 18% at the year-end 2015. Now this growth stems primarily from additional investments in high-quality dividend-yielding stocks, along with market appreciation that has occurred since year-end 2015.

I would say that more than half of the growth that's occurred this year has done so in nonregulated subsidiaries, whose equity holdings account for almost 5 percentage points out of the 22% total that I just mentioned. This portfolio consists of approximately 90 different companies, 60 or so of which are blue chips, and we have one remaining REIT index fund and the rest is invested in utility stocks.

Looking forward, we don't really expect that the allocation to equity securities will increase substantially from the levels they're at currently.

That investment income decreased in both 2016 periods by comparison to 2015. As we mentioned during this conference call a year ago, the third quarter and year-to-date 2015 investment income benefited from a nonrecurring special dividend that amounted to $10.1 million, $6.9 million of which was recorded by the General Insurance group. So absent this special dividend last year, net investment income would have risen slightly in the 2016 periods for both the General Insurance segment for the quarter and for ORI on an overall basis.

The total portfolio yield has declined slightly on a year-over-year basis. This is due in part to the continued downward pressure on rates, along with the increased allocation to municipal tax exempt securities that carry a lower stated yield. These munis are reported in the health and maturity line on Old Republic's balance sheet.

Now you may recall that we had exited this class of security for some period of time when our taxable income had declined. But we have begun to reinvest in munis, and they now make up roughly 6% of the total portfolio.

Moving on, consolidated claim reserves have developed slightly favorable for the quarter and for the first 9 months of this year. That's benefiting the third and -- our third quarter and the 9-month period's claim ratio by a little more than 1 percentage point. As noted in this morning's release, the General Insurance group, on a stand-alone basis, experienced breakeven development for both 2016 periods. And that's by comparison to about a 1% unfavorable -- a 1 percentage point unfavorable development in the 2015 period.

The mortgage insurance portion of the RFIG Run-Off business continued its trend of favorable development of prior reserves during both the third quarter and the year-to-date periods this year. And finally, the Title group reserves developed pretty much in line with our prior estimates.

The decline in the operating cash flow that we reported on Page 5 of this morning's release stems mostly from the reduced investment income attributable to the special dividend that I mentioned earlier as well as accelerated claim payments that emanate from the General Insurance group, in particular.

The increased book value of $16.89 at the end of June has increased to $17.13 per share at end of September, and this is primarily the result of the accumulation of net income in excess of the quarterly dividend to Old Republic shareholders. As usual, the reconciliation of book value per share for several recent periods is shown on Page 7 of the release.

And finally, the capitalization ratio shown on the table on Page 7 of the release are reflective of the increased shareholder equity account as well as the higher debt levels resulting from the issuance of a $550 million 10-year debt instrument during August of this year. The purpose of issuing the additional debt at this time was to enhance liquidity for general corporate purposes, and that would include the possibility of redeeming our outstanding convertible senior notes that mature in March of 2018, in the event they do not convert into common equity in the meantime. Therefore, the debt leverage ratios that we recorded this morning will remain at elevated levels until March of 2018. And at that point, they should revert back to more normal levels, irrespective of whether the convertible notes are redeemed or converted into common equity.

So those are the highlights that we want to cover, and I'll turn the call back to Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, again, to repeat, leaving aside the shortfall we had in General Insurance, we think we've got good business prospects at Old Republic, and I think we're going to end up the year in very good shape. And we'll have built a good business base to go forward with for 2017. And particularly, if housing holds its own next year as we expect, we think that the combination of a continued strong Title business next year, together with a better priced book of business in the parts of our General Insurance business, which have given us a bit of indigestion, that it will all work out fine. So we're optimistic about our business. And, as I say, irrespective of this latest quarter's hiccup.
Having said that, we'll open the meeting to any questions that you may have. We'd be happy to answer them.

Question and Answer

Operator

[Operator Instructions] And we will take our first question today from Greg Peters with Raymond James.

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

I suppose given the stock price movement today, it's kind of ironic that you had the alarms going off during part of your commentary. But more seriously...

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Greg, those were firemen's trucks and it's around 2:00 or so in Chicago and that means that the firemen were coming back from lunch.

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

Seriously, on the -- some of the results -- I had a number of questions. So if you look at the expense ratio in General Insurance, yes, just on a 9-month basis, where it went to 24.9 from 23.3. That's about a 1.6 point movement year-over-year, and quick math suggests it's about a $35 million swing. That's a pretty big number to attribute to a new business start-up and perhaps you could provide some additional color. I know you said it's some other factors, but maybe you could give us some additional color on that?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. It's a couple of things, at least. You're correct. It's not all the new business, although it did account for a big chunk of that. But we also have a different mix of business too. For example, you have growing -- a bit of a growing surety business. And surety insurance, as you know, carries a bigger commission load than other lines of insurance. So mix of business has got something to do with it. And then, of course, you have a drop-off in volume, let's say, in our gas and oil services industry where, of course, we don't have the volume, don't have the commissions, but we sure as hell have got the internal infrastructure, which doesn't go away. So now you're measuring, fundamentally, the same type of expense against a lower top line, okay? Whether it's top line as premiums written or premiums earned as the case may be in GAAP. So I think it's not just the start-up business, it's all of these other elements put together. And then as I think Karl mentioned, in the second quarter this year, we had a big chunk of money going to lawyers on an attempted settlement of -- how do we refer to that case?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

It's the patent infringement litigation as disclosed in our commitments and contingencies note in our 10-Q and 10-K.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

So you've got a lot of noise in that expense structure. And we think longer term, you're going to see us -- if not by the end of this year, certainly sometime next year, you're going to see our expense ratio revert back to normalcy.

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

And so just to follow through with that last comment, normalcy. Normalcy means what? Is that a 23%, a 24% or a 25%? I mean, if you go back decades ago, your expense ratio in General Insurance used to run higher than it had, say, for example, last year. So what's the new normal?

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

Well, Greg, this is Craig here. I -- just referring, again, to the financial supplement, where we do show our 10-year weighted average is 25%. So if you look at where we sit today, it's not that far out of line with that. So looking back, we give the 10-year history there. And where we sit in our overall expense ratio is -- looks pretty much in line with those prior years, especially if you go back to 2011 and '12. So I think the expense ratio should improve somewhat as we move into next year and as the business continues to grow. But it's not that far out of line with where we've been.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

If you go -- if you get a little faster growth, it's not inconceivable that we can come in at a 23.5%, 24.5% ratio which, again, as Craig said, 25% is the ballpark.

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

So -- but if we have -- if -- from the outside looking in, if we have cautious view on the industry outlook, maybe 25% is the right benchmark for someone that's more conservative to use and let it develop more favorably, if possible? Or is -- am I missing something?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, I think 25% is probably a good number to latch on to, assuming that we don't have a huge improvement in the top line, okay? If the top line moseys along, we think our top line can grow a little faster than the economy. But even with that, you're not going to be too far off the reservation, if you use that 24.5%, 25%.

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

Okay. So then the other part of the expense or the other component here would be the benefit and claim ratio. And so -- again, not to get hung up on one quarter's numbers where the -- there was very little improvement, the 9-month result has definitely showed some better improvement. Is there something that's happened in the last 90 days that would derail the progress that you've been making in getting to a lower benefit and claim ratio?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I think one of the things -- you can do this, and I know you in particular, Greg, is armed with our quarterly statistics. If you look at our quarterly statistics, which recite the amount of reserve deficiency, unfavorable reserve developments that have come to pass, let's say, in the last 3 years quarter-by-quarter, you'll see a declining trend on the one hand generally, but you will also see that in the final quarter of the year, in both '14 and '15, there was a much more accentuated upheaval from the standpoint of reserve -- unfavorable reserve developments. And I think what Craig tried to say before and what I will repeat now is that I think we've got -- we are better, we are getting better at anticipating what we need to do today than we may have been 12, 24 months ago. And so I think you're going to continue to see a very steady drop in the amount of unfavorable developments and getting back to the 2% or 3% favorable development that we have shown for many years at Old Republic. And I -- if you were to put me on the spot, I would say, certainly by the end of next year, we should be back to that, okay? Now I know I've been wrong before, but at least we have a good feel of being able to anticipate what's happening to case reserves and boosting them particularly when it comes to areas such as the commercial automobile business, where industry-wise, as you know, there's been a significant increase in claim severity for a variety of reasons. And we are responding to that, both in terms of what we think are better underwriting controls, being faster on our feet in terms of setting the right case reserves on cases as well as getting some pretty significant rate increases. So the combination of those 3 things is what's going to lead us to a better performance from a reserve development standpoint. And therefore, not have prior period's unfavorables affect the current year.

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

To your point -- I mean, you have been talking about this for some time now, and some of your larger peers, I think Travelers this past quarter, finally acknowledged there might be an issue with auto severity. So you definitely seem to be ahead of the curve there. Can we just circle back on the comment regarding the energy book? And you called out the construction book in the press release. How big were those books last year? And are we on this slippery slope to 0 for both books of business? Or where are we within that sort of market cycle for both the construction and the energy books? How big and where are we in this cycle?

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

Greg, I'll take that and try to clarify. On the oil and gas book or the energy services book of business as we refer to it, interestingly enough, our policy count there has not gone down very much at all if any. So what's happening, though, is, as you can imagine, with what's happening with the price of oil and the lack of drilling and other activity associated with that, the exposures have gone down dramatically. So the premium reduction is really a result of decreased activity and the fact that we're holding on to those policies would indicate that when activity increases, you can expect that to go right back up. So absolutely not going to 0. With respect to the construction business as we've talked about several quarters in the past, we have a very large book of construction business that spans multiple operations. And one in particular, our large account construction business we've talked about, and we've indicated that there were some corrective underwriting steps we needed to take, and we also indicated that on that large construction business, the marketplace was extremely competitive. So as such, I think I've said previously that we were going to maintain our underwriting discipline and we were -- we would walk away from business that we couldn't achieve the necessary price to produce a profitable result. And what you're seeing is a result of us doing exactly that. We're not chasing bad competition. We're taking the position we need to from an underwriting standpoint, a pricing standpoint on that large construction business. So as a result, we had anticipated that, that would go down, and it's gone down right in line with our expectations. So there, too, we are very committed to the construction segment. It's a very large portion of our overall business. But it's this one particular large construction piece that we're doing what we said we were going to do, and we're seeing what we expected to see.

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

I have 2 final questions. I'd be remiss if I didn't give Rande a chance to pipe in and give us some additional color regarding the growth of the commercial title versus the regular title business. And then after he's done, I want to just clean up with a question on RMIC.

Rande K. Yeager
Chief Executive Officer and President

Sure. The commercial business is one of our stars. I mean, we've come so far in terms of premium generation and services, and we've devoted lot of resources to it. But just to give you some perspective, back in 2009, we actually did about -- did $41 million in our commercial unit in gross premium. And in 2015, we did $298 million, and we will exceed that this year. So over a 5- or 6-year period, the growth has been just outstanding. And we're all happy with it. And -- but we're growing every single one of our units. Our agency business continues to grow, our direct operation business continues to grow. But strategically, we placed ourselves as an agency company, about 85% of our premiums come from agents. And that's by design and the reason we do it as we've stated many, many times before is, there is certainly a lot of volatility in the real estate markets and in those periods where mortgage originations are going down, refinances are going down, purchases are going down or for whatever reason, the market starts to slide. We're positioned better than any of our competitors who are not close to the percentage of agency business that we derive from the market, in terms of not having those direct operating expenses, not having to shed a lot of expenses. It's good for our company, it's good for our people and it's good for our customers. So we couldn't be happier with where we're going, and we look forward to a lot more growth.

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

That 85%, that ratio used to be, what, maybe 5 or 7 years ago?

Rande K. Yeager
Chief Executive Officer and President

It was -- you know what, we've always been agency-driven, but we've probably gone from the 65% to 70% range up to 85%.

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

Perfect. And then Al, just to close the loop, you mentioned with RMIC. You referenced -- you're looking to achieve the best long-term outcome for that franchise. And I know there's been several initiatives in the past. And more recently, there has been some industry news on other mortgage insurance operations that have been acquired by other companies. Can you add some color to what you think might be some of the best long-term outcome options that you're considering at this point?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, the easiest option is to run off the business and build up a cash of capital that can then be dispensed with -- throughout the system. And we feel good about that. And as you know, there is always value to insurance company charters. There is certainly very great value at RMIC in terms of its technical infrastructure. There's great value in the remaining cast of our associates who've seen us through hard times and now are seeing us through much better times, wherein we can see the daylight at the end of the tunnel. So right now, we are happy with where we are building up capital. We are pretty much done with any and all litigation that was -- that's been attached to that business. We still have just a couple -- a one small claim, piece of litigation that we want to see through. And when that's done, we'll take a hard look at whether there is a different way of handling that business other than staying with it until run-off, and we expect run-off to go to 2022 or so. So we've got plenty of time ahead of us. And so we would not separate ourselves from that business unless there was great assurance that, one, a purchaser of that business would meet our requirement since our name would remain on the front door of that business. And secondly, that we would be properly rewarded for having not only rebuilt the business but, in fact, run it off in a very decent fashion by honoring all of our just obligations and not running away from them. That's the best color I can give you, Greg. And I think if you heard us say it in the past, that's what we said.

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

I have heard you say that in the past.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Same old, same old.

Operator

[Operator Instructions] And we'll now go to Gary Ransom with Dowling Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to zero in on commercial auto. Some of your peers have been talking about frequency going up and you're talking about severity. But I was wondering if you've seen any adverse trends on the frequency side in your book of business.

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

Sure. I can speak to that. A majority of our commercial auto is our trucking business, and what we're seeing there is really severity. Frequency has been very consistent over time. So it is, for us -- that isn't to say that there aren't segments of our business where we're seeing some increased frequency as well as severity on auto, but those are smaller segments. But on the bulk of our business, it is severity more so than any frequency.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. And on the -- on reserve development, I know there was no development overall. But looking at the loss ratios, it looked like there may have been some potential adverse development in the commercial auto, offset by favorable elsewhere. Was that the case either for prior year or a true-up for this current accident year?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No. I think it's a case where we -- in parts of our business, where we may have had and have had reserve -- favorable reserve developments that because, in particular, of the fact that Craig just mentioned, increased severity, that we have less redundancy or less favorable developments, but favorable developments we have in that line, okay? Unfavorable developments that offset those favorable developments, okay? Still remain in the workers' comp. And then when you talk about the workers' comp, we have to remember that the impact, that the discount of loss reserves has on development. Now I'm not trying to make a big megillah of it, but it is an element, okay? So what you have is favorable development still on commercial automobile and substantially all of our other coverages. And where we have unfavorable development, it's still located primarily in comp and a little bit, Karl, in the GL area, correct?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

That's correct.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Does that address your question?

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. And just one more thing. Going back a couple of years, you were talking about selling more loss-sensitive products in order to help improve the underwriting results. Now I think that may have been more associated with workers' comp. But is that a strategy that might also be available in commercial auto?

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

Sure. I can speak to that. It is a strategy for both comp, auto and for that matter, for GL. But you're right. When we spoke about it in the past, it was really talking about a shift in our business from guaranteed cost business to more loss-sensitive business for workers' compensation. But on the auto line of business, that is certainly a strategy we deploy as well and is widely deployed across several of our operations where the clients are taking substantial retentions on their -- through a large deductible mechanism on their auto liability and -- as well as the comp. So it is indeed a significant portion of our portfolio already and continues to grow for auto liability as well as comp.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So looking back at the comp where there has been improvement, was that part of the reason that we saw loss ratio improvement over the last couple of years in costs [ph] particularly?

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

We believe so. Some of the unfavorable development that Al spoke about a little bit ago, certainly contributed to that loss ratio and the stress that was on the loss ratio. But we think in the results that we're seeing today that they are coming in, in line with expectations, and a lot of that has to do with our strategy to focus on more loss-sensitive business.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And just one more question on the workers' comp. What are you seeing in the underlying trends, either frequency or severity in your workers' comp business?

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

The -- well, as you probably know, the industry is seeing frequency that is declining. Severity, it depends what state you're talking about. Florida is a state where, as you may know, NCCI has filed significant rate increases because of anticipated severity. So it really varies when it comes to severity. But frequency, generally is down. And for our business, as I mentioned in my opening comments, we have seen our ability to get rate increases in comp moderate and that's primarily because you have the NCCI and the state rating bureaus which, of course, we, along with most in the industry, base our base rates on. And, as such, they're out filing rate decreases in response to lower frequency. And as such, it's harder for us to get rate increases when that's happening. So that's generally why I made the comment at the beginning that getting rate increases on workers' compensation is certainly more challenging than it has been.

Operator

[Operator Instructions] And at this time, I'd like to turn the conference back to Al Zucaro for any additional or closing remarks.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, don't have any other comments except, again, to thank everybody for participating in this call and keeping your interest up on Old Republic. And we think that, as we said, that this company is in good shape, particularly if people look at it in the context in which we manage it, which is to manage it for the long run, and we can take care of the blips as they occur in a very nice way, as we've shown time and again. So on that note, we'll bid you all good afternoon.

Operator
Thank you very much. That does conclude our conference for today. I'd like to thank everyone for your participation.