S&P Capital IQ

CONTENTS

RLI Corp. NYSE:RLI

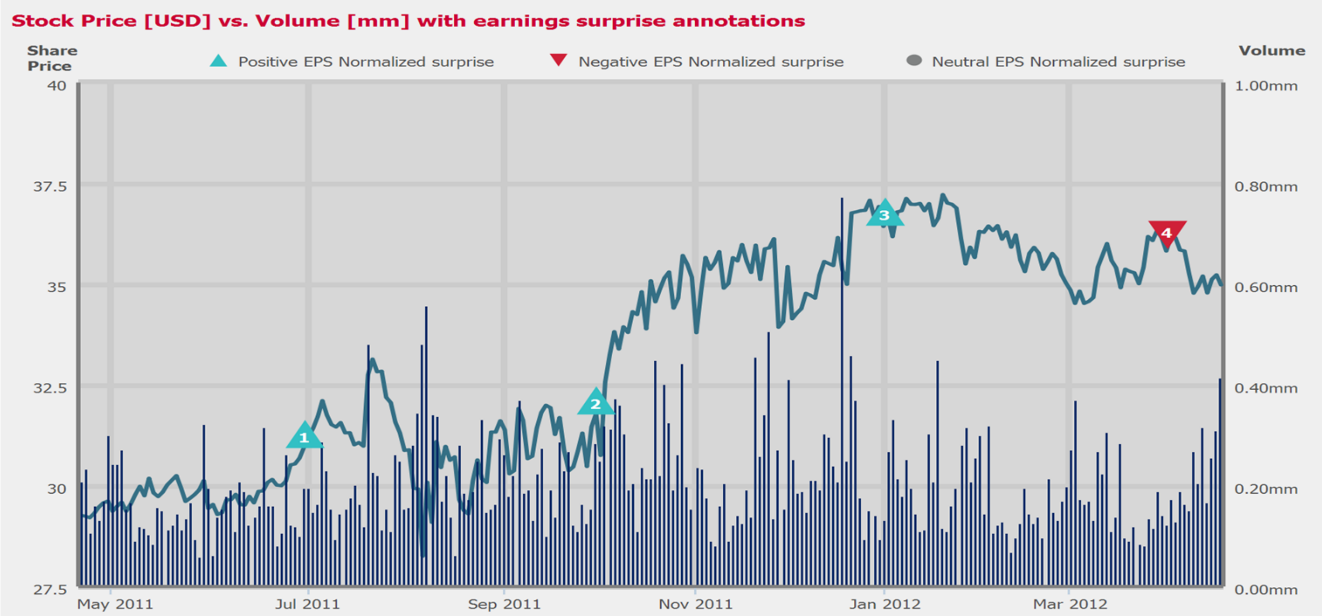
FQ2 2012 Earnings Call Transcripts

Thursday, July 19, 2012 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.57	0.58	▲3.51	0.49	2.06	2.16
Revenue (mm)	157.72	155.75	▼(1.25 %)	162.94	641.69	694.56

Currency: USD
Consensus as of Jul-19-2012 1:56 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.53	0.96	▲1 81.13 %
FQ3 2011	0.49	0.62	▲2 26.53 %
FQ4 2011	0.55	0.68	▲3 23.64 %
FQ1 2012	0.53	0.48	▼4 (9.43 %)

Call Participants

EXECUTIVES

Aaron H. Jacoby
Vice President of Corporate Development

Jonathan E. Michael
Chairman and Chief Executive Officer

Michael J. Stone
Director

Thomas L. Brown
Chief Financial Officer and Senior Vice President

ANALYSTS

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

DeForest R. Hinman
Walthausen & Co., LLC

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

Randolph Binner
FBR Capital Markets & Co., Research Division

Raymond Iardella
Macquarie Research

Unknown Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the RLI Corp Second Quarter Earnings Teleconference Call. At this time, I'd like to inform you that this conference is being recorded. [Operator Instructions] Before we get started, let me remind everyone that through the course of the teleconference, RLI management may make comments that reflect their intentions, beliefs and expectations for the future. As always, these forward-looking statements are subject to certain risk factors, which could cause actual results to differ materially. These risk factors are listed in the company's various SEC filings, including in the annual Form 10-K, which should be reviewed carefully. The company has filed a Form 8-K with the Securities and Exchange Commission that contains the press release announcing second quarter results.

RLI management may make reference during the call to operating earnings and earnings per share from operations, which are non-GAAP measures of financial results. RLI's operating earnings and earnings per share from operations consist of net earnings after the elimination of after-tax realized investment gains or losses. RLI's management believes this measure is useful in gauging core operating performance across reporting periods, but may not be comparable to other companies' definitions of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings. The Form 8-K and press release are available at the company's website at www.rlicorp.com.

At the request of the company, we will open the conference up for questions and answers following the presentation. I will now turn the conference over to RLI's Vice President, Corporate Development Mr. Aaron Jacoby. Please go ahead, sir.

Aaron H. Jacoby
Vice President of Corporate Development

Thank you. Good morning to everyone. Welcome to the RLI earnings call for the second quarter of 2012. Joining me on today's call are Jon Michael, Chairman and CEO, Mike Stone, President and Chief Operating Officer; and Tom Brown, Vice President and Chief Financial Officer. I'm going to give some brief opening comments on the quarter, then I'll turn the call over to Mike to talk about our operations and market conditions. Then, we'll open the call to questions and Jon will finish up with some closing comments.

From our perspective, there were several things worth highlighting this quarter. First an 85 combined ratio; second, 9% gross premium growth; third, continued favorable reserve development; fourth, continued growth in book value per share, up 7.4% since year end; and fifth, still improving market conditions.

Operating income was $1.17 but, as usual, there were a couple of items that influenced this quarter that are worth pointing out. First, we had $26.5 million of favorable development from prior year's loss reserves. Those of you have followed RLI for a while know reserve levels are subject to quarter-by-quarter adjustment, based on our actuarial process and there can be and has been significant volatility in these levels from quarter-to-quarter. Second, spring storms amounted to $12 million of impact across a number of small events. Coincidentally, the same impact as last year's second quarter. Premium growth was up 9% on a gross basis with our casualties segment leading the way. Property premium was flat while Surety was up 3%. So bottom line, $1.17 of operating income on an 85 combined ratio, and 9% top line growth, a respectable second quarter.

With that, I'll turn the call over to Mike.

Michael J. Stone
Director

Thanks, Aaron. Good morning, everybody. Kind of a newsflash, we had some rain here in Central Illinois last night, that will become relevant as we talk further. A brief update on the market and what we're seeing out there. As Aaron said, we're up 9% for the quarter, 15% gross written premium for the year and that's 10% without the addition of CBIC. We're cautiously optimistic as we move forward. However, there's been no watershed moment yet. We are seeing some company-showed efficiencies, considerable amount of CAT activity again this quarter, maybe the market will firm, really firm soon. I would say though that with the moribund economy, it's going to be tough to see a whole lot of growth. Everything is zero-sum at this point in time.

Let's talk about our segments. Casualty, good story. Positive rate trend, growth in all our major products. Gross written premium up 22% in the quarter, 25% year-to-date. And that's 19% without the addition of CBIC. General liability, our primary E&S product, primary liability E&S, our largest product, gross written premium up 10% year-to-date, rates improving on the order of magnitude about 5%. So we're starting to see a bit of movement in what has been our growth product in the past. Our commercial umbrella product, up around 100% year-to-date and about 50% of that is written over our own GL. So it's business that's -- we already underwrite from a primary side. So we're adding exposure but a well-underwritten piece. There are some geographic areas that are truly hard with companies exiting this line and underlying companies requiring early -- umbrella companies requiring higher limits, higher under underlying limits, which is providing opportunities for gap layers that we're able to provide. And we're a getting significant rate, north of 10% plus our submissions are up considerably.

Transportation, my canary in the mine, gross written premium's up 28% in the quarter, 9% at year-to-date, a good story with nice growth. Rates are up, however, just nominally, probably a little bit less than 5% year-to-date. So I'd say the canary still lives, maybe it's gagging a bit and maybe we can put it to death in the next half of the year. However, our product guys in the field are saying it's still competitive. One large MGA lost its market and quite a bit of business on the street, which was able to fuel our growth in the quarter. So no inflection point but moving in the right direction.

Our professional services business, our architects and engineers, design professionals, miscellaneous professionals also growing nicely, up 77% in the quarter, 63% year-to-date as we grow out this business in a vanity package product for these professionals, and we're growing that business as well. The end results will improve in this area as we gain more scale efficiencies. So a nice growth story there as we grow that out.

Our personal umbrella product continues to grow steadily, up some 3% in the quarter and year-to-date. It's a nice niche here for us as we continue to grow that out and add some product there as well. Our CBIC package, casualty products, gross written premium was up about 6% year-to-date and loss trends are good in that line.

Overall, good growth both with and without CBIC, rates trending up but we remain circumspect, with some optimism. A boost in the construction activity and the overall economy rebound would be welcome.

Property area. As Aaron said, we're flat for the quarter on gross written premium, up 5% year-to-date. There's no CBIC premium in this segment. Our CAT win rates are up quite a bit, some 25% with the introduction of RMS 11 last year. We still think it's too competitive, need more rate to get us to increase our writings. We're well within our tolerances so we have some room to grow if we could get additional rate here.

Our DIC and Earthquake is off 7% in the quarter, about flat year-to-date. Rates are up nominally somewhere south of 5%. Again, you're not going to see gross written premium growth in our CAT DIC Earthquake unless we see rate improvement. Marine also in this segment, gross written premium flattening out in that area, is up about 3% for the quarter. Most of the growth is coming from our inland product. Our re-underwriting in the wet marine is taking hold with some favorable development in the quarter and year-to-date.

We continue to move to a more niche-based approach. Smaller accounts, more inland, better underwritten in our marine. So we're cautiously optimistic here.

Spring storm activity again this year, $12 million. We're slow but we're taking action, we're raising rates, tightening terms and conditions, for example, higher deductibles in these areas. Crop. That's C-R-O-P, by the way. We've been reading about drought, clearly, we see it here in Central Illinois. We are closely monitoring this issue. A few ROI facts. We expect about $35 million in premium from our ProAg relationship of which we keep approximately $25 million. Only about 25% of ProAg's book is in the severe drought states. Their top 5 states not impacted by the severe drought and a disproportionate amount of their premium is in non-group 1 states. Too early for any definitive assessment. Obviously, corn's impacted, soybeans, it's too early. Remember, this is a crop-by-crop, county-by-county matter. There will be losses, but whether there's -- will be a loss is too early to tell.

Surety. Gross written premium up 3% in the quarter, 15% year-to-date. Premium is flattening out as we are cautious with our contract book, both the CBIC side and the RLI side. We are seeing considerable competitive pressure in the commercial surety space but we expect to continue to grow this segment over time. It's performing well and we're seeing much improvement in our contract book as well this quarter.

Overall, good underwriting quarter. We are optimistic going forward but it's still fragile. We need some economic improvement to see real growth over time. Thank you, Aaron.

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

Question and Answer

Operator

[Operator Instructions] The first question comes from Randy Binner from FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

I just wanted a follow-up on the crop insurance comments real quick. So there's $25 million retained of net premiums earned annually, is that correct?

Michael J. Stone
Director

That's correct. It's Mike Stone, that's correct.

Randolph Binner
FBR Capital Markets & Co., Research Division

And you said -- approximately how much of the book was in, what you would you call, severe drought states?

Michael J. Stone
Director

25%.

Randolph Binner
FBR Capital Markets & Co., Research Division

And then, I guess, what's your sense of how much of the corn crop has been lost? I mean I've read anything from 1/3, 1/4 to 1/2 of it in the Midwest, does that seem right from what you guys are seeing?

Michael J. Stone
Director

It's Mike Stone again. It's awful hard to tell. I mean, it's early. It's county by county. If you go through Illinois, Central Illinois, and I drive to Chicago back and forth, as does our CFO fairly frequently, some looks pretty good and some doesn't look very good. So it's pretty hard to tell. Like I said we did get some rain last night.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay, and then so, I guess, how does the timing work? I mean, do you kind of -- when is the determination made that a crop is lost? I mean, it's now, it's July, I guess, it would be a third quarter event, right?

Michael J. Stone
Director

Yes, harvest time, right? It's September, October, is when we'll start to know something much more definitively. We'll start getting crop reports in, timing and stuff as time goes on through the quarter. So it's -- like I said, it's still too early but they'll start to firm up in the third quarter.

Randolph Binner
FBR Capital Markets & Co., Research Division

And then one more, if I can. As far as whatever loss comes through, it's feels kind of like it would all be primary layer, meaning you would take it -- do you have any reinsurance cover for an event like this big, if x amount of the crop is lost?

Michael J. Stone
Director

No. We have a -- we seed $10 million plus the -- there's a government stop loss, obviously.

Randolph Binner
FBR Capital Markets & Co., Research Division

Would that kick in on this event, the government stop loss?

Michael J. Stone
Director

I mean, if it's bad enough, it will.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay. Can you characterize for us how that -- what the rough economics of the government program are?

Michael J. Stone
Director

Well the government -- it depends on whether it's Group 1 or Group 2 and 3 states. What's different, by group; Group 1, that's the -- typically referred to as the I states, about 190. The government kicks in, Group 2 and 3 states at about 150, the government kicks in.

Randolph Binner
FBR Capital Markets & Co., Research Division

That 190 refers to?

Michael J. Stone
Director

Loss. Loss ratio.

Randolph Binner
FBR Capital Markets & Co., Research Division

Loss ratio for each individual company?

Michael J. Stone
Director

Well, for each individual crop, each individual state.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay, understood. And then real quick on E&S, maybe I missed that kind of particular view in the overall commentary. But just kind of wanted to get your views on it, if E&S is still kind of slowly starting to turn the corner, we talked about them in previous calls, but are larger carriers leaving E&S a little bit more, is a better economy helping? Is the economy better enough to help E&S? Just looking for more color there.

Michael J. Stone
Director

Yes, it's Mike Stone again. I think, again, you have to separate property and casualty, I'll talk about casualty. Yes, I think some of the standard companies are starting to pullback a bit. And it's not 2001, is that when it got hard, 2002 certainly nothing like that. But we're starting to see a gradual pullback. And so we feel, as I said, cautiously optimistic. I don't think the economy is helping much. Clearly in the Southeast, it continues to be very difficult, very little construction activity. We've seen a little bit of pickup in the Northeast, particularly the New York area, which is -- the economy is a little better. California's probably improving a little bit but that's pretty fragile. So it's really -- you got to look at sort of segments of the country to get the a different feel, by section. So all in all, we think things are improving and the standard guys are pulling back. But it still is a bit of a zero-sum. There's a little bit more business in the surplus line space than last quarter. Property's been okay with RMS 11. Rates are up on the CAT side but, again, outside, the non-CAT side, it's still not improving.

Randolph Binner
FBR Capital Markets & Co., Research Division

Just one more, I need to ask the -- my assumption is that most of the CAT loss came from E&S property in the quarter?

Michael J. Stone
Director

Yes, that's correct.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay. Was there any kind of property-type or geography that was more affected or was it fairly diversified across where all the storms hit?

Michael J. Stone
Director

Well we had losses in the Oklahoma, Kansas, I think that's 76 or 77 CAT. And Dallas, which was, I think, 78.

Operator

We'll go to the next question from Adam Klauber from William Blair.

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

Looks like the accs in your loss ratio was up. We have it at around 53, that's up compared to last quarter, compared to some of the quarters last year. And particularly, it looks like the property accident, accs catastrophe was up. Could you, I guess, explain why?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

This is Tom Brown. I think it's trending pretty consistent, I think, with the first quarter, and there's a lot of variables in that, ranging from price, mix, we take a longer-term view of loss cost trends that -- than maybe what we're seeing in the near term and I think that's having a little bit of a meaningful impact on the overall loss ratio, and more specifically, to the Property lines.

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

Okay. So could you go into that, on the Property, is it, I guess, mix-wise, are you writing -- what products are pushing it up?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

That would be, principally, marine.

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

Okay, okay. Then also another question on the Property. It sounds like in some of the areas rates are up, particularly, I think you mentioned CAT-prone areas are up but growth was pretty flat so could you, I guess, give us an idea why rates are up but there's no growth?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, because we're cutting back on exposure.

Michael J. Stone
Director

And also our marine business is down overall relative to the growth rate, it's down last year. It were -- a little less business in the DIC, little less business in the non-CAT-prone areas, so-called fire business. So it's still competitive in the Property space even with rates up. Certainly the CAT wind, hurricane wind, is still competitive and, I mean, everybody uses the model so when you say everybody is up by that level, but exposure is probably up that high, too.

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

Okay, that's helpful. As far as favorable prior year development, the good size number on Surety, was that from CBIC or was that the non-CBIC book?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

It's Tom Brown, it's actually a little bit of both. It represents about 25% of the overall favorable development for the quarter. It covers the miscellaneous, commercial oil and gas, have been favorable. Principally, the more recent years, '09 through '11, offset modestly by little bit of unfavorable deal on the contract Surety which, with respect to the economy in that sector, probably no surprise.

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

Right, right. Okay. And as far as Property, also you get some decent development, was that disproportionate from some storms in prior years or is it just spread across years?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

It's spread across years. I wouldn't for the current quarter, point any particular storm. It's largely coming from our marine book in more recent years, 2008 to 2010.

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

Okay, that's helpful. And then finally, just following up on the E&S comment. And we've heard the market is just moving gradually against some, emphasize gradual, pullback from some of the standard carriers. Would you say that the speed of the movement has increased a little in the last 3 to 6 months or is it just sort of a very gradual path?

Michael J. Stone
Director

Adam, terrific questions. Mike Stone. It's like, how many angels dance on a head of a pin? I think it's continuing to move -- whether it's moving a little faster, it feels a little better, okay? I mean that's about as good as I can get, it feels like it's getting a little better.

Operator

Next question comes from Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Mike, just -- would you circle back on kind of the general liability and umbrella, E&S commentary, kind of asking Adam and Randy's question a different way. When thinking about the economy and kind of contrasting that with just competition from kind of traditional standard lines markets, which one of those do you think has more ability to kind of move the needle going forward on improvement, is it kind of some sort of tangible economic improvement can be more important to you or if some of the larger standard lines guys get a little religion and that will move the needle more.

Jonathan E. Michael
Chairman and Chief Executive Officer

Matt, it's Jon Michael. My view is that for all of us, if the economy improves, it will -- it should move the needle quite a bit. And what will happen if the economy improves, in my view, it'll cause some of the standard lines carriers to retreat and go back to some of the standard lines that they write a lot better than the E&S carriers do. So that's what usually happens when you see economic improvement. So that's my view anyway.

Operator

And we'll move to Meyer Shields from Stifel, Nicolaus.

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

Were there any areas in the markets that you participate in where you're actually seeing rate trends deteriorate from where we were in the first quarter?

Michael J. Stone
Director

It's Mike Stone. Not really, no. But I think, if anything, that the worst as we see it, something that's flat. But, by and large, flat is the new down.

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

Okay. On the casualty reserve developments, I guess, still very strong but it did decline a little bit, or more than a little bit from last year, can you talk about what's driving that? Is there a shift in accident years or product?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Meyer, it's probably a consistent trend with what is been experienced in the industry as a whole, maybe at a lesser rate. It was about 50% of the overall release for the quarter. In more recent accident years, 2006 to 2010, ranging from GL and pop to some transportation, in terms of the lines.

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

Okay but no like individual years that are really turning bad or anything like that?

Jonathan E. Michael
Chairman and Chief Executive Officer

No. I'd say there might be a slight negative, here and there, but nothing to read into. Most of it is more recent accident years.

Operator

Next question comes from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

One other related to the Property segment, though. The net to gross retention has continued to kind of decline. Is that a product of mix or is there some changes in the reinsurance program there?

Michael J. Stone
Director

No. It's Mike Stone. It's mix.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. As you continue to shift, I guess, maybe downshift in the Property segment, is that, I would presume, that's freeing up a fair amount of risk-based capital under your ratios, is that right?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

This is Tom Brown, Mark. It's probably too early to tell on that. We do look at our models periodically and risk-based capital as well as our CAT models, and nothing of significace to note as of this point in time.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

How does the crop figure into those types of calculations? Does it have a similar capital weighting to property-type risk?

Michael J. Stone
Director

It's Mike Stone. Less. It's fairly diversifying when it comes to that, so it's less.

Operator

We'll move next to DeForest Hinman from Walthausen and Company.

DeForest R. Hinman
Walthausen & Co., LLC

Kind of a big-picture question, can you give us an update on your investment portfolio and how you're positioning it? And maybe some of your thoughts on the rumblings in the muni bond market, if you have any exposure there?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, DeForest. Tom Brown here. I think that's 2 questions. One just from a weighting, we're consistent with first quarter, moving money more into the municipals, from a weighting about 60% municipals, 20% corporate and about 20% asset-backed kind of split evenly between, in the muni world, between general obligation bonds and essential services. The second part of that question maybe I should point out that's also very high investment grade AA or better. On the second part of that question, these are rumblings in the market, if I have the right word, are you referring to some of the recent bankruptcies like in California?

DeForest R. Hinman
Walthausen & Co., LLC

In California.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, we monitor that very closely. Have no exposure to the -- I think more recent municipalities, et cetera, that announced bankruptcy. We monitor that very regularly and particularly look at any time we see a dip or downgrade in the investment grade, we take a pretty hard look and an action.

Unknown Analyst

And can you talk about the portfolio duration?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, in the duration, in particular on that, we're moving on a little bit, approximately 7 years on some of that to get a little more yield and the overall has not changed significantly from Q1. It's at about 4.7, which is where we were at Q1. It's slightly longer than where we were at the end of the year, at about 3.6, 3.5. But then, if you look at over the 10-year horizon, that's pretty consistent with where we've been, 4.5, to 4.7 overall duration.

DeForest R. Hinman
Walthausen & Co., LLC

Okay. And you talked about -- there's increased underwriting going on and we do have capital. Can you kind of help us think about the capital allocation strategy going forward? It doesn't look like you mentioned any share repurchases in the quarter, so if we continue to accumulate excess capital, will we be looking at doing another one-time dividend?

Jonathan E. Michael
Chairman and Chief Executive Officer

Jon Michael here. We continue to look at our capital requirements, the risk-based capital. As I've said in the past, our -- we would rather use it ourselves. I think our long-term history of producing excess returns to shareholders by using it ourselves is what we would intend to do with it. Again, if we do not see opportunities either in the -- or can I use that capital and do not see anything in the foreseeable future for it, we'll return it. And our return will either be in the form of share repurchases, which we've done in the past or special dividends. Those are our 2 preferred ways of returning the capital. I can't make any predictions on what we'll use. We do have quite a bit, what? $80 million, $80 plus million on our share repurchase left. So when we see opportunities, we'll -- if we cannot use the capital we'll repurchase shares and we'll make a decision on a special dividend at another time.

Operator

[Operator Instructions] And we'll move next to Ray Iardella from Macquarie.

Raymond Iardella
Macquarie Research

Mike, maybe a question for you. I think last quarter, you had mentioned, in a rising rate environment, the retention on the E&S side of your business actually improves. Are you seeing that in the results? Or can you comment on the retention of the -- on the E&S side?

Michael J. Stone
Director

On policy, bring in retention, it's about the same. It's not deteriorating. It's about the same. So as a leading indicator, it's not moving north, but it's not deteriorating.

Raymond Iardella
Macquarie Research

Okay, that's helpful. And then Tom, I think you had mentioned maybe some adverse -- a little bit of adverse on the contract Surety business. Any more color in terms of magnitude or potential accident years, you're feeling some of that headwind from?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Yes, Ray. It's principally in the 2010 and 2011 accident years. Can you give me the... I looked up here, it's a little over $1 million.

Raymond Iardella
Macquarie Research

Okay. And then can you remind us how big that book of business is, generally? The contract Surety book?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Approximately $40 million.

Operator

If there are no further questions, I will now turn the conference back to Mr. Jonathan Michael. Please go ahead.

Jonathan E. Michael
Chairman and Chief Executive Officer

Thank you very much for joining us. It was another good quarter for RLI, 9% growth there and an 85 combined ratio at the end of the quarter. Our shareholders equity up nearly 8% since year end at $40.24 a share. We're very proud of our underwriters and their discipline. It's a testament to our 85 combined ratio average over the last 10 years, is testament to our underwriters being disciplined in their approach. Mike mentioned and Aaron mentioned that the rate environment continues to improve modestly, pretty much across-the-board. We didn't talk a whole lot about this but submission activity is up. That's always a good sign especially for our E&S book. Given the low interest rate environment and the pesky CAT activity that we have this quarter and the expectations that industry's reserve releases will begin to lessen considerably, I think, we expect the rate environment to continue to firm, although at a modest rate. We really need a good economy to help the industry. That would really help. Again, good quarter. We are looking forward to talking to you next quarter. Thanks for joining us today.

Operator
Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 1-888-203-1112 with an ID number of 9221548. This concludes our conference for today, thank you all for participating and have a nice day. All parties may now disconnect.