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Old Republic International Corporation NYSE:ORI

Earnings Call

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Call Participants

EXECUTIVES

Carolyn Jean Monroe
Senior Vice President of Title Insurance

Craig Richard Smiddy
President, CEO & Director

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

ANALYSTS

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

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

ATTENDEES

Joe Calabrese

Presentation

Operator

Good afternoon. My name is Audra, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Old Republic International Third Quarter 2024 Earnings Conference Call. Today's conference is being recorded. [Operator Instructions]

At this time, I would like to turn the conference over to Joe Calabrese with FRB. Please go ahead.

Joe Calabrese

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss third quarter 2024 results. This morning, we distributed a copy of the press release and posted a separate financial supplement. Both of the documents are available on Old Republic's website at www.oldrepublic.com.

Please be advised that this call may involve forward-looking statements as discussed in the press release and financial supplement dated October 24, 2024. Risks associated with these statements can be found in the company's latest SEC filings. This afternoon's conference call will be led by Craig Smiddy, President and CEO of Old Republic International Corporation and several other senior executive members as planned for this meeting.

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

Craig Richard Smiddy
President, CEO & Director

All right. Thanks, Joe. Well, good afternoon, everyone, and welcome again to Old Republic's third quarter 2024 earnings call. With me today are Frank Sodaro, CFO of ORI; and Carolyn Monroe, President and CEO of our Title Insurance Group.

So during the third quarter, we produced $229 million of consolidated pretax operating income, which is down from $251 million in '23, and our consolidated combined ratio was 95% compared to 92% last year. General Insurance had strong underwriting results, which continued through the third quarter producing $197 million of pretax operating income, and that was down from $216 million last year. The General Insurance combined ratio was at 94% in the quarter compared to 89% last year. And this mostly reflects the anticipated lower level of favorable prior year loss reserve development when compared to the historically high level of favorable development we experienced in 2023.

High mortgage interest rates and a continuing tight real estate market continue to constrict our Title Insurance business although it does feel like we're at the beginning of a transition in the real estate market, which we'll talk about in a little bit more detail. And despite the headwinds, Title Insurance produced $40 million of pretax operating income in the quarter and almost $90 million so far this year. The Title Insurance combined ratio was 96.7% in the quarter, and that's unchanged from the quarter in '23.

So our conservative reserving practices continue to produce favorable prior year loss reserve development in both General Insurance and Title Insurance. So as expected, not to the same historically high level we saw in General Insurance the last couple of years. In 2024, we remain on track to produce our tenth consecutive year of favorable loss reserve development.

Our balance sheet remains strong as we returned capital to shareholders through both dividends and share repurchases during the quarter. We continue to manage for the long run investing in our new General Insurance specialty underwriting subsidiaries as well as investing in technology in both General Insurance and Title Insurance.

So with those opening remarks, I will now turn it over to Frank, and then Frank will turn things back to me to cover General Insurance, and that will be followed by Carolyn, who will discuss Title Insurance. And then we'll open up to the usual Q&A discussion. So Frank?

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

Thank you, Craig, and good afternoon, everyone. This morning, we reported net operating income of $183 million for the third quarter compared to $200 million last year. On a per share basis, net operating income was relatively flat at $0.71 compared to $0.72 last year. Net investment income increased 17% in the quarter driven by the impact of higher yields on the bond portfolio. Our average reinvestment rate on corporate bonds was 4.5%, while the comparable book yield on corporate bonds disposed of was 3.1%.

The total bond portfolio book yield now stands at 4.3% compared to 3.75% at the end of the third quarter last year and 4% at the end of last year. Our investment portfolio composition and mix remained largely unchanged from last quarter.

Turning to loss reserves. Both the General and Title Insurance Groups recognized favorable development in the quarter, leading to a benefit of 1.3 percentage points to the consolidated loss ratio, which is slightly lower than the 2% we strive for. I'll now give you some line of business color about the reserve development coming from the General Insurance Group in the quarter.

Commercial auto continued to have strong favorable development coming predominantly from our trucking coverages. Workers' comp also had a high level of favorable development, although significantly lower by comparison to the same quarter last year. General liability had pluses and minuses across the system and ended with some unfavorable development, but at a lower level than last year.

Additionally, we recorded unfavorable development of around $25 million within financial indemnity, most of which relates to our transactional risks line of coverage. We saw development across several claims in this coverage, which represents a small portion of the total financial indemnity book. And finally, we had a larger amount of favorable development than usual in our property lines.

We ended the quarter with book value per share of $25.71 which inclusive of dividends equates to an increase of 13.7% since year-end and that resulted primarily from our strong operating earnings and increased investment valuations. In the quarter, we paid about $67 million of dividends and repurchased $165 million worth of our shares. Since the end of the quarter, we repurchased another $23 million worth of our shares, leaving us with about $385 million remaining in our current repurchase program.

I'll now turn the call back over to Craig for a discussion of General Insurance.

Craig Richard Smiddy
President, CEO & Director

All right, Frank. Thanks. So General Insurance net written premiums were up 16% in the quarter with strong renewal retentions, rate increases on most lines of coverage, new business growth and increasing premium production in our new specialty underwriting subsidiaries, where as a reminder, most of that business is written on E&S paper. Our E&S premiums were up 21% in the quarter and are running at $585 million on a trailing 12-month basis.

As I mentioned in my opening remarks, in the third quarter, General Insurance pretax operating income was $197 million, and the combined ratio was 94%. While on a year-to-date basis, pretax operating income is at $620 million and the combined ratio is at 92.3%, which is exactly in the middle of the target range we gave between 90% and 95%. So this demonstrates that we continue to grow at a strong clip at a very profitable level.

The loss ratio for the quarter was 65.2% which includes 1.7 points of favorable prior year loss reserve development, and that compares to 60.4% last year, which included 6.1 points of favorable development. Absent the impact of favorable reserve development, the accident year loss ratio was relatively stable as compared to last year on both a quarterly and year-to-date basis. The expense ratio held relatively steady at 28.8% compared to 28.6% last year and is running at 28.2% for the year, which again is right in line with our expectations.

Now turning to property catastrophic losses that impacted the industry in the third and fourth quarters. But first, let me express that our thoughts still remain with those that are recovering in the disaster areas, which includes about 1,000 of our associates. As most of you on the call know, we write less catastrophic-exposed business than most of our peers. So with that said, we expect ultimate losses for Helene to be between $8 million and $10 million and ultimate losses for Milton to be between $18 million and $23 million.

As Frank mentioned, we experienced unfavorable prior year loss reserve development in the financial indemnity line of coverage stemming primarily from transactional risks written in our professional liability unit, which writes mostly D&O and E&O and other management liability covers. The unfavorable development drove the high 83% loss ratio that you can all see in the financial supplement for the financial indemnity line of coverage.

Now providing you with some more details on commercial auto and workers' compensation, 2 of our largest lines. Commercial auto net premiums written grew 14% in the quarter, while the loss ratio came in at 67.1% compared to 66.3% last year due to slightly lower levels of favorable prior year loss reserve development, although, as Frank said, still strong. And rate increases were approximately 10%, and that remains commensurate with the loss trends that we observed in that line.

Workers' compensation net premiums written held relatively steady quarter-to-quarter, while the loss ratio came in at 58.8% compared to 33.2% last year due to much lower levels of favorable prior year loss reserve development this year when compared to the historically high levels of favorable development we experienced this quarter in 2023.

So loss frequency trend continues to decline, and loss severity trend remains relatively stable. So given higher wage trend within the payroll, which is our rating base, the declining loss frequency trend, the stable severity trend in our rate decreases of approximately 4% on this line, we continue to remain of the belief that our rate levels remain adequate for workers' compensation.

We expect solid growth and profitability in General Insurance to continue for the remainder of '24, reflecting the success of our specialty strategy, our operational excellence initiatives and our new specialty underwriting subsidiaries.

So with that said for General Insurance, I will now turn the discussion over to Carolyn to report on Title Insurance. Carolyn?

[Technical Difficulty]

Operator

And it does look like Carolyn has disconnected. If we could just wait one moment while we reconnect.

Craig Richard Smiddy
President, CEO & Director

Okay. I know Carolyn is in one of those areas impacted by the recent catastrophes. So hopefully, we'll be able to get her back on. So that we don't have downtime for all of those listening in. Perhaps I can kind of...

Carolyn Jean Monroe
Senior Vice President of Title Insurance

We got -- I got reconnected.

Craig Richard Smiddy
President, CEO & Director

Okay. Great.

Carolyn Jean Monroe
Senior Vice President of Title Insurance

I'm sorry.

Craig Richard Smiddy
President, CEO & Director

No problem. I was ready to pivot and call inaudible here, but we'll hand it to you.

Carolyn Jean Monroe
Senior Vice President of Title Insurance

All right. Thank you. Sorry about that. The Title group reported premium and fee revenue for the quarter of $709 million. This represents an increase of nearly 4% from third quarter last year. Our directly produced premium and fees represented 22% of revenue versus 21% in the third quarter of 2023 and our fees were up 9% from prior year, while agency-produced premiums were up 2%.

Our commercial premiums decreased 6% and represent approximately 20% of our net premiums for the quarter. While commercial premiums decreased slightly, we are seeing some positive signs in our direct operations. Commercial direct new title orders were up 11% compared to third quarter 2023.

Our pretax operating income of $40 million was an increase of 7% over prior year third quarter, and our expense ratio of 94% and our combined ratio of 96.7% are consistent with third quarter 2023.

Since the end of 2022, interest rates have been the headline story in our market. While many homeowners have -- already have low interest rates, homebuyers that purchased during recent years' rate increases are now seeing an opportunity to lower their rates. We are also seeing homeowners taking advantage of the equity in their homes to remodel or for other cash needs. These 2 activities are pushing up refinance activity.

The recent Fed rate increase is significant because it signals a long-awaited shift in monetary policy to spur economic growth. While housing affordability and lack of residential housing inventory still represent headwinds for our industry, the shift in Fed policy is a sign -- a very positive sign for our industry. In our direct operations, we have seen an increase in our open orders each quarter this year. Overall, our third quarter new open residential title orders in our direct locations were up 26% compared to the third quarter of 2023.

As we start the final quarter of this year, we continue to focus on modernization efforts in our direct operations and bringing value and servicing our agents as they prepare for an increase in business as the markets recover. We'll continue to emphasize that investing in technology is a critical priority. While we are pleased with our third quarter results and activities, we remain mindful that the market is still recovering from the downturn, and we will remain focused on managing for the long run.

Thank you, Craig.

Craig Richard Smiddy
President, CEO & Director

It feels like we're at the beginning of a transition in the real estate market. Overall, our year-to-date results are driving positive performance in our earnings per share growth, our operating return on equity and our book value growth. And these results have enabled us to return a record amount of capital to shareholders this year.
So that concludes our prepared remarks, and we'll now open up the discussion to Q&A where either I'll answer your question or I'll ask Frank or Carolyn to help me out and respond. So we'll open it up to Q&A.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Gregory Peters at Raymond James.

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

So the last couple of comments I missed, I must have also a poor connection here. And you did mention -- I got back in when you were talking about share repurchase activity. So can we go back to the capital management initiatives, what the expectations are for share repurchase for the balance of the year and how you think about it for '25?

Craig Richard Smiddy
President, CEO & Director

Sure. So maybe I'll -- Greg, since I don't know exactly what you might have missed. I know you're down in that same area as Carolyn, but perhaps Frank could just recap on where we were at the -- during the quarter and since the end of the quarter with our share repurchases.

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

Yes. So share repurchases in the quarter was about $165 million. Since the end of the quarter, we did about another $23 million. That's taking the full year up to $768 million of repurchases, puts us right at about $1 billion return when you include since the end of the quarter and our dividends. The other thing I'd add is we have $385 million remaining on our current authorization.

Craig Richard Smiddy
President, CEO & Director

Yes. And Greg, I would just speak to that and say that we have always been mindful of valuation when we're repurchasing and our pace of repurchases does depend somewhat on that. And it looks like we could continue to repurchase through the end of the year, and that could possibly exhaust the remaining amount of $380 million, $385 million that Frank spoke to or we -- that might go into the first quarter next year as we continue down the repurchase path.

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

Thank you for clarifying that. The second question, in your comments, Craig, you spoke about, I think you said E&S was up 21%. Is that the 4 businesses, the new ventures you've been talking about where the premium is up. And I think you said the run rate is around $385 million, is that right -- or $588 million, maybe, excuse me, I got 2 different numbers on here. And can you just give us an update on how you're looking at those businesses because I think that's a growth engine as we think out over a multiyear period?

Craig Richard Smiddy
President, CEO & Director

Sure. Yes, I'd be happy to. So just to level set, again, Old Republic Union is our non-admitted surplus lines company, and all of our 17 subsidiaries within the General Insurance Group have access to that paper. So there are several of our subsidiary companies that do use that paper on some of their business.

However, a good amount of that growth that we're seeing is coming from a couple of our newer subsidiaries, primarily our Old Republic E&S operation. And I know as we spoke about when we set that up a few years ago, we expected that to grow and it's growing in line with our expectations, and we think that it will continue at a pretty good clip for the next couple of years at least.

And then we also have Old Republic Inland Marine that we also set up just prior to that, and that's helping to produce premium as well. And then to a lesser extent, our new Old Republic Lawyers Professional and our new Old Republic A&H. But again, those are to a lesser extent. So it is, as I say, primarily our Old Republic E&S operation that's driving a lot of that growth within the E&S space.

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

Fair enough. I guess the final question just on the reserve development. I don't recall, Frank, ever hearing a 2% favorable reserve development target for the company. So that was a new piece of information. The other thing is, I think you mentioned it twice in the call, which is this charge of the prior year development of $25 million in financial lines. Was this a onetime situation? Or is there some potential erosion of this as we think about looking into the quarters ahead?

Craig Richard Smiddy
President, CEO & Director

Yes. So Greg, let me first talk about that 2%. I know in the past, I've said that we hope to err on the side of producing favorable development as opposed to going between favorable and unfavorable developments. And as such, we hope for 2 points of favorable development over time. So that remains our target, might be too strong of a word, but we -- our conservative reserving practices we hope will result in favorable development of about that 2% level on average over time.

So that on the first part of your question, with respect to the transactional risk business, as Frank said, it's a small part of our professional business. And it is currently running, just to give you some relativity at -- we've been reducing our writings in that area this year. So year-to-date, we're about $14 million of premium in that area. And it's a professional line that primarily is in our professional liability unit, and as I stated in my comments, that unit really is more of our D&O and E&O management liability group.

So it's a very small piece of our overall financial indemnity line. And as I know, in other quarters, where a certain line of coverage where we either adjust the accident year loss ratio up or we put up some additional reserve, when we see something come through in the way of claims and in this case, very small number of claims but they had some severity. And when we see something like that, we take a conservative view and put up reserves.

So that's what we did this quarter. And we'll have to see where things go. But that's our best view of things right now on that business. And again, we've taken a conservative approach as we always do when we see something coming through. We rarely will take things down if it's favorable. But if it's unfavorable, we immediately react and try to react in a conservative way.

Operator

[Operator Instructions] We'll move next to Karol Chmiel at Citizens JMP.

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

I'm calling in for Matt, he's unavailable right now. But my main question is regarding commercial auto. And Craig, you had mentioned earlier that commercial auto, you're going to get the 10% rate, which is in line with the loss cost trend. But my question is really, are you seeing any of the frequency and severity that is being seen in the industry? And if not, is your book any different from your peers?

Craig Richard Smiddy
President, CEO & Director

Sure. We believe our book is different from our peers in at least how we approach the business. I think in prior quarters, I spoke about how our reserving practices are different, our claims practices are different and very specialized and our distribution model, again, is very different. However, with respect to frequency and severity, no, it's very hard to isolate yourself from what the industry sees, whether that's workers' compensation or whether it's auto. Yesterday, our executives just had a meeting with the folks from NCCI, for instance, on workers' comp. And what they're observing in the way of frequency and severity is -- pretty much lines up with what we're seeing in the way of frequency and severity.

So I would say the same goes for auto, very difficult to immune yourself from factors of frequency and severity that are driven by how many miles are being driven, traffic congestion on the roads when it comes to frequency and on severity, as we've talked about, social inflation, jury verdicts and the like are going to drive severity on that.

And therefore, I think what we're seeing on frequency and severity on auto is probably very consistent with what the industry is seeing. I think the difference there too of us from industry and why we have the favorable loss reserve development that we have on commercial auto is, again, because of our reserving practices, both on a case reserving basis, on an IBNR reserving basis are much more conservative.

And when we saw back in 2019 and 2018, when we saw the changes come through on severity, we immediately reacted. We improved our pricing analytics, and we refined our rate filings and also started implementing rate increases to get us back to where we need. And if you look back over the last 5 years, we have, on average, obtained a 10% rate increase. Back in '19, it was actually about a 17% rate increase when we initially started to observe things.

So you compound that all the way through, and it helps explain why we've been able to maintain the results we have. And we were, I think it's safe to say, much sooner to react and perfect our pricing and our case reserving much sooner than many in the industry that are putting up unfavorable development.

Karol Krzysztof Chmiel
JMP Securities LLC, Research Division

Great. That's very helpful. And then just a short follow-up regarding the buybacks and the overall capital management. You guys said earlier that you're open to maybe using all of your buyback. But this year or maybe into next year, is there something that you're looking at? I mean are you looking to use the capital more for premium growth?

Craig Richard Smiddy
President, CEO & Director

Well, let me just step back and give you perhaps a broader response than that. And that is, as I've indicated in several quarters when the issue of capital management comes up, I remind everyone that every quarter, we review our capital management position with our Board. And we make a recommendation on ways to return excess capital if we deem there to be excess capital.

The first preference for capital is to grow the business. But we have been so fortunate to produce the results we have that our retained earnings have as much capital as we've returned over the last several years. Our retained earnings keep filling that bucket back up, and that keeps happening. So as we get into next year, I would suspect that we will again be in that position where retained earnings keep filling up that capital bucket. And unless there's an opportunity for an M&A transaction or an opportunity to continue to make stronger investments in new businesses, then we will deem that capital to be in excess, and we'll again have a conversation with our Board and talk about the best ways to return that, whether that be through a share repurchase or through a special dividend.

Operator

And we'll take a follow-up from Gregory Peters at Raymond James.

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

So in your press release, you called out warranty, home warranty as being -- where pricing is being competitive and pulling back, yet if I look at that segment's results, net written premium was up substantially in the quarter and up for the year. So maybe you can help walk us through the moving pieces inside that segment.

Craig Richard Smiddy
President, CEO & Director

Yes. So I'll talk to it a little bit, Greg. I can tell you that we did write a new program within our home and auto warranty segment that was auto warranty. That business has been very profitable for us and has ran at decent loss ratios. So we expect to continue to grow at a pretty decent split of premium on our auto warranty. And as we expect -- I thought you said something in your question about something in the release that indicated perhaps something different than that. If you could just clarify.

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

If I look at the press release, it said largely reflecting market conditions or declines in public D&O transactional risk and coverages and to a lesser extent home warranty.

Craig Richard Smiddy
President, CEO & Director

Okay. Yes. So thank you for that clarification. Yes. So the auto warranty is driving that line of coverage category of home and auto warranty as I just explained. And on home warranty, we're producing that business mostly through real estate agents, and it's very dependent as our Title Insurance businesses on sales transactions in the real estate market for homes.

So in the home warranty segment, we've actually seen some declines there because of just where we're at in the real estate cycle. And again, just as entitled, we're hopefully feeling the real estate market starting to turn. But those are the 2 moving pieces. One up, one down, auto warranty up, home warranty down a bit.

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

Fair enough. I feel like I should filibuster till I get the fire department running by you. But I just wanted to pivot, Carolyn. I know you guys -- here we are at the end of October, you're starting to prepare budgets for next year. I'm not sure what to make of the outlook for both new and refinancing activities. Maybe you could provide us a snapshot of how you're thinking about it through your crystal ball.

Carolyn Jean Monroe
Senior Vice President of Title Insurance

Sure, Greg. This year, every quarter, we've seen a slight increase in our orders that we track through our direct operations. It's a positive sign, but I also think just based on what we read, we listen to economists quite a bit, it's just still so hard to predict what could happen. We would be happy if we continue to see the positive increases that we've set seen quarter-over-quarter this year.

A lot of people believe that we'll start seeing some recovery later in 2025. And then 2026 should be when it really starts having a larger effect on us. It's just so hard to predict anymore. I wouldn't have thought that -- when this first started, I would have thought we'd be way ahead of where we are now, but it's just something that's been so unpredictable almost month-to-month in the real estate cycle right now.

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

So I guess as a related question, if there's a lot of that uncertainty, I look at the expense ratio, let's just look at the 9-month expense ratio of 95.4%. I remember several quarters, maybe a year ago, your actual target in this period was a little bit lower. Should I just use that sort of as a bogey for the foreseeable future what you're currently reporting until conditions improve or do you have another recommendation?

Carolyn Jean Monroe
Senior Vice President of Title Insurance

I would say it's hard to predict. A lot of what goes into our expense ratio has to do with fees and services that we pay for in producing all these orders. And those are expenses that are kind of upfront, and it takes a while for those to recover. We need the revenue for these orders to offset our expenses on these. And we've continued, while it's been slow to work through our technology and modernization. And so that does bring some pressure on our expense ratio.

Operator

And that concludes our Q&A session. I will now turn the conference back over to management for closing remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well, thank you, everyone, for your interest and your time and participating with us. And we wish you all the best this fall and look forward to getting back together with you when we can report on our fourth quarter and the final 2024 figures. So again, thank you very much, and have a great day.

Operator
And this concludes today's conference call. Thank you for your participation. You may now disconnect.