S&P Global
Market Intelligence

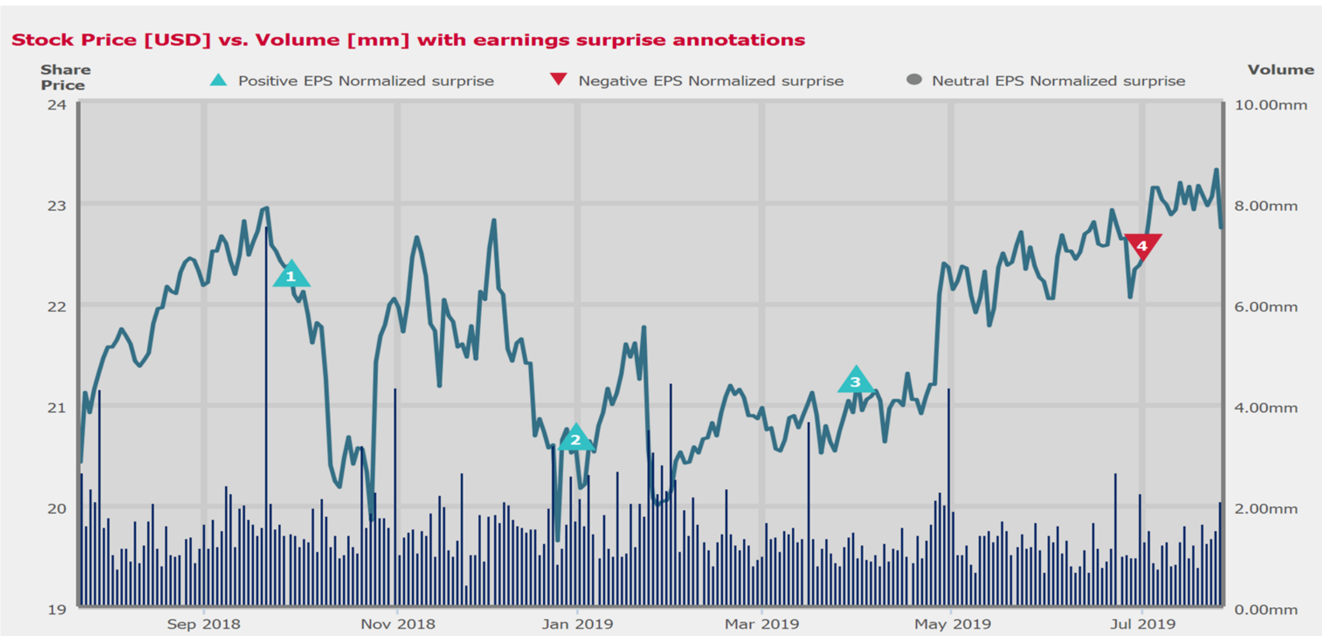
Old Republic International Corporation
NYSE:ORI
FQ2 2019 Earnings Call Transcripts

Thursday, July 25, 2019 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.48	0.45	(6.25 %)	0.51	1.88	2.00
Revenue (mm)	1564.00	1607.70	2.79	1650.00	6311.00	6347.00

Currency: USD
Consensus as of Jul-12-2019 6:30 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.46	0.56	21.74 %
FQ4 2018	0.44	0.45	2.27 %
FQ1 2019	0.38	0.40	5.26 %
FQ2 2019	0.48	0.45	(6.25 %)

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman of the Board & CEO

Craig Richard Smiddy
President & COO

Karl William Mueller
Senior VP & CFO

Rande Keith Yeager
Chairman & CEO

ANALYSTS

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

Matthew John Carletti
JMP Securities LLC, Research Division

Nicholas A. Karzon
Franklin Resources, Inc.

ATTENDEES

Marilynn Meek
Old Republic International Corporation

Presentation

Operator

Good day and welcome to the Old Republic International Second Quarter 2019 Earnings Conference Call. [Operator Instructions] I would like to remind everyone that this conference is being recorded. And I would now like to turn the conference over to Marilynn Meek with MWW Group. Please go ahead.

Marilynn Meek
Old Republic International Corporation

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss second quarter 2019 results.

This morning, we distributed a copy of the press release and posted a separate statistical supplement, which we assume you have seen and/or otherwise have access to during the call. Both of the 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 supplements dated July 25, 2019. Risks associated with these statements can be found in the company's latest SEC filings.

This afternoon's conference call will be led by Al Zucaro, Chairman and CEO of Old Republic International Corporation, and several other senior executive members as planned for this meeting.

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

Aldo Charles Zucaro
Chairman of the Board & CEO

Okay. Thank you, Marilynn, and it's all good, and hello to everyone. As always, we appreciate very much your joining us in this conversation about Old Republic's latest earnings release.

Today, as Marilynn indicated, we've got 4 of our -- of us engaged, Karl Mueller, our CFO, and he will provide some insights into the more important elements of overall financial performance and condition of our company; then Craig Smiddy, President, will cover highlights of our General Insurance business; Rande Yeager, Executive Chairman of our Title business, will follow that with comments about the recent operations of that segment, and then, I'll join in as the pieces come together.

In approaching today's discussion, we're assuming, as Marilynn said, that everyone has seen the morning's earnings release. And as we've done in past conference calls, we'll also be referring, from time to time, to certain additional statistical information, which is included in the financial supplement that we post each quarter on our website. So we've -- in this wide world, so assuming therefore that everyone has access to this posting on their computer.

If we look at the total operating picture of our business, we think that Page 3 of the release says it all. For the second quarter, year-over-year comparisons of the all-important underwriting and related services parts of the business are, as the French say, [Foreign Language], primarily for reasons that Craig will give in a few minutes and as are summarized in the earnings release.

On the other hand, Old Republic's performance in the first 3 months of this year, combined with the second quarter, did produce first half underwriting results which were basically flat with those of the same period of 2018. Again, from an overall operation standpoint, interest and dividend income from our roughly $14 billion investment portfolio, it continued to be a bright spot for our company.

For the first half of the year, in particular, this income, as you see, was sufficiently robust as to move the needle, so to speak, to the green range from a pretax operating income standpoint. So as I said couple of minutes ago, why don't we turn this discussion over to you, Karl, as you address, as we've planned, the highlights of the release from a pure financial perspective. So go ahead.

Karl William Mueller
Senior VP & CFO

Okay, Al. Yes, thank you. I'll speak briefly to the major points concerning Old Republic's consolidated operating results and financial condition. As we show in the table at the top of Page 1 in this morning's release, the market value adjustments on the equity security portfolio that since the beginning of 2018 is now recorded through the income statement, that's continued to produce, I guess, what we would consider to be significant volatility in the reported net income.

And for the reasons stated in the release, we believe that a better measure of an insurance company's operating performance is income that excludes the effect of all investment gains and losses. As Al mentioned in his opening comments, the table on Page 3 clarifies the key elements of our operating profitability into its 3 component parts, that being underwriting results, net investment income and interest and other charges.

So on that note, this morning, we announced second quarter net income that excludes all investment gains and losses of $136.3 million, and that's down about 2.5% from second quarter a year ago. However, for the first half of 2019, net income, again excluding investment gains, was $257.9 million, which reflects a year-over-year increase of 2.5%.

From an underwriting perspective, this year's second quarter consolidated composite ratio, as you see, of 95.2%, ticked up slightly from the second quarter of 2018 and that's primarily due to lower favorable development of prior year reserves. Consolidated expenses stayed relatively in line with premium and fee production for both the quarter as well as the year-to-date periods.

Turning then to our financial condition, you see that cash and invested assets rose to roughly $14 billion at the end of June. And this change was driven by a combination of the investment of positive operating cash flow, which by the way totaled $313 million for the first half of this year, and couple that with substantial unrealized market appreciation in both the fixed income as well as the equity security portfolios. The composition of the portfolio remains relatively consistent with the prior year-end with fixed maturity and short-term investments making up roughly 72% of the total with the remaining 28% being comprised of dividend-paying equity securities.

For the second quarter and year-to-date period, consolidated net investment income grew by slightly more than 5.5% due primarily to growth in the investment base plus higher dividend income and then offset to a slight degree by lower yields on the fixed maturity portfolio.

On a consolidated basis, claim reserves continue to develop favorably for all periods presented. This morning's release along with Pages 4 and 5 of the financial supplement that both Marilynn and Al referred to disclose additional details regarding prior year claim reserve development on the reported claims ratios for our 3 operating segments being General, Title and Mortgage insurance.

Old Republic's book value per share increased to $19.68 or roughly a 14% increase for the first 6 months of this year. The primary drivers of this change in book value are shown on Page 9 of this morning's release. The lower debt to capitalization ratio at the end of June, which is also shown at the bottom of Page 9, is reflective of a slightly declining debt balance compounded by growth in the common shareholders' equity account. We'd also like to point out that the consolidated results for the first half of 2019 benefited by the elimination of roughly $4 million of interest expense that was attributable to the conversion of the remaining outstanding convertible notes and that occurred in the first quarter of 2018.

So overall, Old Republic's balance sheet remains in very strong condition. The company is well-capitalized and positioned for continued growth.

So on that note, Craig, I'm going to turn things over to you to comment on the General Insurance Group.

Craig Richard Smiddy
President & COO

All right. So as the release indicates, the General Insurance Group saw continuing quarter-over-quarter growth in net premiums earned as well as total operating revenues. Although quarter-to-quarter earning comparisons reflected a decline, year-to-date earnings have grown by a strong 12.1% when compared to the same period in 2018.

As can be seen in the financial supplement, quarter-over-quarter net premiums earned in commercial auto rose by 7.9%, reflecting the positive effect of cumulative rate increases, somewhat offset by decline in the exposure base due to lower U.S. freight shipments when comparing 2019 to 2018. As can also be seen in the financial supplement, Worker's Compensation experienced a 1.7% drop in net premiums earned, resulting from rate decreases that correspond with lower claim frequency trends of the past few years.

Quarter-over-quarter, the group's overall composite ratio rose slightly to 98.1%, while year-to-date, it stands at a lower 96.7% compared to 97.4% for the same period in 2018. The group's expense ratio came in at an elevated 26.7% for the second quarter, while the year-to-date ratio is relatively stable in comparison with 2018. The higher expense ratio in the latest quarter is largely due to differences in the mix of business and differences in the timing of certain expenses.

Okay. So turning now to claim ratio shown in the financial supplement. Our second quarter commercial auto claim ratio held relatively steady with the year-to-date ratio and the 2018 year-end ratio. Even though we've been achieving strong rate increases for several years, the systemic increase in claim severity trends in the U.S. commercial auto still persist and we're prepared to continue to respond commensurately until such time these trends abate and we see that ratio coming to line with our target in the low 70s.

Just adding a little more color on this severity, vehicle repair costs continue to edge higher due to expensive technology components, while bodily injury settlements are higher as a result of more aggressive plaintiff attorney tactics and ensuing litigation.

Moving to Workers' Compensation, the second quarter's claim ratio declined quarter-over-quarter and year-over-year and obviously, this is a continuing trend that we're very pleased with.

In the financial supplement, we also show claim ratio for commercial auto, Worker's Comp and GL combined, given that we typically provide these coverages together to an account. So for these coverages combined, the second quarter's claim ratio held relatively steady with, again, the year-to-date ratio and the 2018 year-end ratio.

Still looking at the financial supplement, we note that the financial indemnity claim ratio for the second quarter came back in the line closer to our long-term average. We think this reflects actions we've taken to address the higher incidence of guaranteed asset protection claims that we've seen as an indirect result of higher vehicle repair costs and also the higher incidence of D&O claims that we've seen stemming from a greater number of security class action lawsuits. All of the claim ratios we report on are, of course, inclusive of favorable and unfavorable developments. And in the latest quarter, we saw negligible unfavorable development of 0.5 percentage point, while year-to-date, the development was favorable by 0.4 percentage points. So we don't see these outcomes as particularly meaningful.

Generally speaking, we continue to grow the General Insurance Group making investments in people, products, technology. We continue to proactively respond to trends we're observing, all while remaining focused on bottom line underwriting profitability as we've always done.

So on this note, I'll turn the discussion over to Rande Yeager for his comments on our Title Insurance Group.

Rande Keith Yeager
Chairman & CEO

Thanks, Craig. As we reported this morning, Title group's quarterly and year-to-date results were really solid in spite of the market volatility that we saw in the first half of the year.

For the first -- for the fourth consecutive year, it really feels great that we exceeded the $1 billion mark in total revenues as of mid-year. Second quarter revenues actually topped the second quarter record of 2018.

If we leave out the adjustments for prior year favorable claim reserve development, the quarter's pretax profit was also a new record second quarter.

Year-to-date, pretax operating income was strong at $80.8 million. According to the Mortgage Bankers Association, total originations are actually down by approximately 5% in the first quarter this year. And the second quarter forecast, which we don't have yet, there is always forecast, which apparently give effect to the impact of lower interest rates will -- should offset this decline. And as interest rates declined in the second quarter, we realized an immediate impact with a rebound in our direct operations.

Purchase money transactions were up slightly, about 6.5%. Again, we expect to see a positive impact from the lower interest rates on home purchases. As we all know, this last statistic is good for our business, as home sales offer greater opportunities for premiums and fees. And while inflationary pressures have slowed in the residential sector, the steady increase in the housing prices is having a positive impact on our revenues. Going to mid-year, at mid-year 2019, agency premiums are off slightly at about 2% or down 1.7% and 2.4% in the first and second quarters, respectively. And because the agency premiums lag direct operating revenue by about 3 months, we should expect to see a corresponding positive effect of the likely interest rate decline in the near term. Direct operation revenues were up 4.2% on a year-to-date with a strong 7.8% increase in the second quarter. About 20% of our premiums and fees are related to the Title group's commercial market efforts and to a large extent our commercial operating unit.

We truly believe that our success in the commercial side of the business is primarily driven by our exceptional commercial team and to a lesser extent by the continued growth in the real estate sector. Once again, our favorable claims reserve development benefited our earnings, albeit at a lower positive effect as shown in the table on Page 5 of the release, and we're optimistic that this trend will continue in a measured way.

With respect to market share, according to the American Land Title Association statistics, we had 15.9% in the first quarter and that compares favorably to 15.5% in the first quarter of 2018. For all of 2018, we captured 15.4% of the market. For '17, that number was 15.0%. We're very happy with these market share gains. And I think it is a strong indication that our team's efforts are being recognized and rewarded by customers and the market in general.

Those are the highlights from me. And so Al, I'm going to turn it back over to you for discussion.

Aldo Charles Zucaro
Chairman of the Board & CEO

Okay. Let's see. Let's just take a quick look at the RFIG Run-Off business. And as the release shows, the mortgage guaranty and the consumer credit indemnity, CCI, acronym that we use, parts of this segment continue to reflect, we believe, a very stable, easy as she goes turn of events.

As long as the economy -- as we've said before, as long as the economy remains on a reasonably even keel with good employment and generally accommodative interest and mortgage rates in particular, we continue to -- we should continue to experience a continuation of this stable situation. Mortgage guaranty margins will necessarily decline gradually as our important infrastructure maintenance costs become somewhat misaligned with the anticipated downturn in the top line.

But having said this, we've got every expectation of posting positive, though, again, gradually declining earnings in this MI business portion of the run-off and that's going to occur as the -- with the ultimate burn off of policies enforced. We still think that most of this will take place or should occur by 2022 or thereabouts. But until then, given our expectations of this reasonably -- reasonable continuation of earnings, we think that the MI capital base should continue to build up, and as a consequence, we're very optimistic that we'll come to a very good endgame that produces a almost beneficial long-term outcome for all of our stakeholders.

As we've said many times before, we very much consider our MI business to be a very valuable and viable franchise, which can either be reactivated to advantage in appropriate outside hands or otherwise run-off to a very sensible economic situation for everyone concerned. As to the much smaller CCI, consumer credit indemnity, portion of the run-off, we think it will just mosey along in a reasonably profitable way as it also experiences a quickening burn off of policies in force.

So all in all, we think we're out of the woods in regards to these RFIG run-offs. And as I say, it can be expected to proceed going forward in a very uneventful workout of its remaining contractual obligations.

So now when we join together everything under Old Republic's umbrella, we feel very good about our situation and our longer-term prospects. System-wide, our focus on the core underwriting and related services disciplines, as both Craig and Rande have spoken to. Our business remains unchanged in terms of this focus. And again, as Page 3 of the release shows, the consolidated composite ratio of claims and expenses to premiums and fees of about 95.6% for the entire consolidated book of business so far in 2019 is also within reach of the 95% bogey for Old Republic's longtailed mix of combined General and Title Insurance businesses.

So we -- when we look at our business, we continue to believe that the North American economy, in which we are exclusively focused, is likely to remain in a very moderate, though perhaps temporarily slowing, growth mode for the foreseeable future. And so, the reliable quality of services we provide to some of that economy's important industry sectors, such as housing and trucking and what have you, that should enable us to grow the consolidated business, we think, at a faster clip than the U.S. GDP or gross domestic product.

We think we can do this on the strength of the very high quality, committed, intellectual talent of our people joined as it is to a very strong balance sheet, as Karl pointed out.

So all in all, we think that the first half results are a good indicator of where the year as a whole is going to end up by the time January 2019 (sic) [2020] comes along and we, again, report in a conference call mode.
So on this note, why don't we now turn this visit to the planned question-and-answer period. If you will, just address your questions to me and I'll play traffic cop, so to speak, and direct them to 1 of the 4 of us. So operator, let's move along with that.

Question and Answer

Operator

[Operator Instructions] And we will go first to Greg Peters with Raymond James.

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

Al, I realize this is probably going to be your last investor call, so...

Aldo Charles Zucaro
Chairman of the Board & CEO

How do you know, Greg? I mean, Lord willing, I plan to stick around for a while.

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

Well, you did announce the new CEO to take, and Craig is going to take over. Anyways, if it's not your last call, I look forward to hearing your voice again, but in the event that it is your last call, I'd like to congratulate you on your successful career.

Aldo Charles Zucaro
Chairman of the Board & CEO

Thank you, Greg. You're very kind.

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

So I'd like to pivot to the typical questions that I ask of you guys following your commentary. First, in the General Insurance business, I noted with interest the results that you posted, particularly in the commercial auto and in the general liability pieces where the claims ratio is elevated relative to the year-over-year comparison, at least for the quarter and for the 6 months in commercial auto and just for the quarter in general liability. I thought I'd give you an opportunity to give us some more color around what's going on there. I know in the commercial auto, you've talked about ultimately getting to a lower claim ratio. And it seems like we are on several years of successive rate increases and we're just not getting there. So perhaps an updated view on that would be appropriate.

Aldo Charles Zucaro
Chairman of the Board & CEO

Yes, why don't you take it, Craig?

Craig Richard Smiddy
President & COO

Sure. So Greg, as I said in my earlier comments, the severity that the entire industry is seeing in commercial auto is still there. It's not abating, and I mentioned where it's coming from. And we have, as you duly noted, been achieving significant rate increases for several years that we think are commensurate with what we're seeing in that severity trend. So we're going to keep doing the same thing until that ratio comes back down into the low 70s, as I said. It's a systemic problem and mostly driven by, as I said earlier, the plaintiff attorney tactics that are driving up the cost of bodily injury settlements. Even those that don't get to litigation, it has a knock-on effect there. You may have heard of litigation financing and the other things that the plaintiff attorneys are doing is leveraging technology to share tactics on how to approach claims, sharing information on various insurance carriers and their practices so as to be able to more effectively leverage the insurers. And a lot of them are playing the bad faith card and making policy limit demands threatening bad faith and that's escalated as well. So like I say, it's a variety of different tactics that are driving up bodily injury costs, and we're responding and we eventually think this has to abate and until then, we'll focus on risk selection and pricing.

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

Can you, as a follow-up to that, give us an indication on what the pure price or rate changes that you expect to get in '19 and how that compares with what the rate change or price increase you got in 2018 for commercial auto, in particular?

Craig Richard Smiddy
President & COO

Sure, Greg. We're getting strong rate increases in the mid-teens. And that is a little bit better than what we've had in the last couple of years, but in line with the last few years as well. So those rate increases, again, are commensurate with the severity trends that we're seeing in the commercial auto sector of the business.

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

So with that type of rate, and if I look at just the pure growth of net premiums earned in your commercial auto business, it suggests that your -- as you're applying rate, you're also pruning or reunderwriting your portfolio of risks. Is that a fair assessment?

Craig Richard Smiddy
President & COO

Well, that's true. Risk selection is certainly part of the equation when we're underwriting our business. But as I commented on earlier, Greg, in my comments, the freight shipments in the U.S. in 2019 have been considerably less than what they were in 2017 and '18. 2018, in particular, was an extremely strong year for the trucking industry and freight shipments and then, in 2019, that has turned in the other direction and it has created a lot of pressure on the trucking industry in '19. Now even though there have been some reports of smaller trucking companies having problems, there's also recent reports that perhaps we've turned the corner. So what that all means for us is that we have an exposure base that is lower in '19 than it was in '18 because of that dynamic in the freight shipments within the trucking industry. So there's more than just risk selection and pruning that is driving the overall premium. It's also the exposure base.

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

Got it. That was very useful.

Aldo Charles Zucaro
Chairman of the Board & CEO

Let me interrupt this. Let me add something to what -- and reiterate something that Craig said before and something that we've said consistently over the years. I think you also need to put all of this in the perspective of the underwriting we performed for the vast majority of our customers, which is that we write auto liability trucking business together with comp and together with GL more often than not and, therefore, that's why we keep pointing to looking at the loss ratios that are developing for the composite of those 3 coverages. I mean, that's an important part of what we do from an underwriting standpoint, mixing and matching coverages from a diversification standpoint, both again from a coverage standpoint as well as from an industry standpoint. And so when you look at those trends, they are not too bad for the 3 coverages combined. As I say, I'm just reiterating something that Craig said before and that we've said, but I think it's an important point to remember.

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

I just have 2 more questions. The first would be around the General Insurance expense ratio. If I look at the quarter-over-quarter result or the 6 months results, either -- while the quarter-over-quarter is much higher, just a little bit higher on a 6-month basis, but still in the context of your 10-year average, above that. Can you provide us some context of what's going on with the expense ratio and how we should think about that going forward?

Aldo Charles Zucaro
Chairman of the Board & CEO

Craig, you want to continue with it?

Craig Richard Smiddy
President & COO

Sure. Sure, I'd be happy with you. So Greg, again, I have to refer back to my earlier comments. In the second quarter, the expense ratio was elevated because we did have some mix of business change quarter to quarter, but it was also elevated because it's -- there are items in there that weren't in there in the second quarter of last year, and that's driving the quarter 2. Year-to-date, again, we think that expense ratio of 26.1% is well in line with where we were at. Last year, at this time in '18, you see we were at 25.9%. And I would point out to you that last year, by year-end, as you can see in the 2018 column, we got down to 25%, which is in our target. So there are more expenses in the front end typically and by the end of the year, we would hope to see a similar trend as what we saw last year.

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

Great. And then, Rande, can you just go through -- I know you've talked several quarters, several years about the growing commercial business. Does the loss and expense ratio of your commercial Title business vary from how it works for the regular or ordinary Title business that you guys underwrite?

Rande Keith Yeager
Chairman & CEO

The simple answer is that we exercise the same caution underwriting commercial deals and residential deals, but we have so many eyes looking at commercial deals on both the customer side and the company side that they just, out of pure way we do business is going to get extra scrutiny and as a result of looking at those deals so closely, the losses tend to be much lower than what you might experience in other cycles of business. So yes, the loss ratios on commercial are very low, and of course, that's benefited the company over the years because our commercial business has grown and about 20% of our premium base is commercial and commercial marketplace has grown a little bit, but I think it's our efforts we've done that are indicated in the earnings release discussion that we've really grown that business, and it's really benefited the company.

Operator

[Operator Instructions] And next, we will go to Matthew Carletti with JMP Investment Bank.

Matthew John Carletti
JMP Securities LLC, Research Division

Al, I've got 2 questions, one is a little higher level and one just a numbers question, so start with the bigger picture one. You mentioned a little bit in your comments about kind of still having at least a couple of options with the MI run-off book, one just to let it play out and earn out and be substantially done in a few years and the other for there to maybe be a transaction that makes sense sooner. And my question is, it's been a little while since you've -- a little over a year maybe since you kind of started thinking about alternate arrangements. Has there just not been interest? Has there been interest and it just hasn't been at what you would view as the right return or the right long-term outcome for the company? Any color you can give there -- us there on kind of where you sit on those 2 paths would be helpful?

Aldo Charles Zucaro

Chairman of the Board & CEO

Well, there has not been interest that would accommodate our expectations for that business and those expectations are covered by our view of what the business can produce, if it's just left alone to the extinction of the in force. So from that standpoint, there is another way to say it but the interest, whatever interest there has been has not been palatable to us.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. That's helpful. And my other quick question, just on the other income line, $34 million in the quarter, that's the strongest it's been in a number of years, actually it might be the strongest ever. Just any color on, is there anything kind of onetime in there? Or is that -- are we approaching a new kind of higher run rate for that line?

Aldo Charles Zucaro
Chairman of the Board & CEO

I think I believe we've explained, Matt, what's in that line, and that's primarily stemming from the service aspects of our business within Title and some in our General Insurance business where we have a claims PPA operation that's growing reasonably nicely for us. And so it's a combination of those 2 elements in Title and General Insurance that are propping up that line.

Matthew John Carletti
JMP Securities LLC, Research Division

Sorry, go ahead, Al.

Aldo Charles Zucaro
Chairman of the Board & CEO

Okay. We do look to that line to grow gradually over the next -- for the foreseeable future because, obviously, if we can grow the non-claims exposed portion of our business, that's always a good thing for us to do.

Matthew John Carletti
JMP Securities LLC, Research Division

Absolutely. And I was just going to say -- echo Greg's comments and congratulations on retirement.

Aldo Charles Zucaro
Chairman of the Board & CEO

Okay. Thank you.

Operator

At this time, we have one question remaining in the queue. [Operator Instructions] We'll take our next question from Nicholas Karzon with Franklin Templeton.

Nicholas A. Karzon
Franklin Resources, Inc.

And I'm going to follow up on Matt's question, asked a little bit differently, but could you help us understand your thought process around the potential optionality of maintaining the mortgage insurance business and a run-off? It seems that roughly $480 million of capital dedicated to this segment that's only generating a mid-single-digit return and declining. It seems capital efficient to retain it even if it is marginally profitable versus finding a way to accelerate that return on capital or finding a way to redeploy the capital more accretively?

Aldo Charles Zucaro
Chairman of the Board & CEO

Well, for us, it's basically cash in bank on which we are earning, as you point out, a relatively small base return. And it's a matter of time. I mean, as you know -- as you may know, in the insurance business, we do have to adhere to regulations and we're going to proceed according to -- to a significant degree, we're going to proceed along the lines of what the regulatory requirements are in terms of reducing our capital commitment to that business. The cleanest shot is going to be or could be a simple reinsurance of the remaining risk in force with a quality mortgage guaranty insurer, which would then free up the company and enable us to liquefy that capital. That's the way we look at it.

Nicholas A. Karzon
Franklin Resources, Inc.

Okay. And as a follow-up to that, how would you prioritize the capital redeployment opportunity or return when that capital is ultimately released?

Aldo Charles Zucaro
Chairman of the Board & CEO

Well, as we said, we have different options, one of which always is, whether it's debt capital or any other capital we have, which is to return it to all of our shareholders via a special dividend. And so that is certainly one of the options we have down the road with respect, let's say, to not just debt capital, but any other excess capital that we may be -- that we may benefit from as a result of the continuing profitability and growth of our business.

Nicholas A. Karzon
Franklin Resources, Inc.

And then switching gears a little bit, last one, but on a net basis, adverse reserve development was relatively low in the quarter, but can you give us any additional color on the development by coverage to the extent that there were some outliers that net it out to that relatively low number?

Aldo Charles Zucaro
Chairman of the Board & CEO

Well, Karl, why don't you take that one. I mean, my recollection is that -- listen, every line of business does not act in the same fashion, particularly in our General Insurance business, okay? Some quarters or years, we have issues, we may have issues or we may have benefits from developments on Worker's Comp, which are offset by charges, let's say, on general liability line, which tends to be very volatile. It's our smallest line of the 3 lines of our focus. Sometimes you have things that just happen. To refresh my memory, Craig, was it last year third quarter when we had some issues with our automobile warranty and GAP insurance by virtue of rainstorms and what have you, which propped up that loss ratio. So I don't mean to evade the question, but we do have a diversified book of business, which is expected to not act in tandem such that the overall results are very palpable as they have become to us from a loss and development standpoint over the last several years. We are experiencing very good results.

And then I might add, not to taint the picture, but when you look at General Insurance loss developments, in particular, as you may know, the Worker's Comp reserves are discounted among other lines of business and the effect of the discount on developments can be countable and can in fact create a vision, so to speak, of a adverse development when in fact none is really occurring. So I throw all of that up in the air to make the point that just it's difficult for us to pinpoint to any one line of insurance of coverage, type of coverage, as being -- as having the major responsibility for whatever action is ticking up in the loss development area. That's the best answer we can give you.

Operator

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

Aldo Charles Zucaro
Chairman of the Board & CEO

Okay. Well, I think we've exhausted our comments. I think we've made all the comments that we thought were important to make at this juncture. And again, we appreciate everyone's interest in Old Republic, and we look forward to our next visit at some times in January of next year. Having said that, we wish everyone a good afternoon.

Operator
And that does conclude today's conference call. Thank you, everyone, for your participation. You may now disconnect.