S&P Global
Market Intelligence

Old Republic International Corporation NYSE:ORI

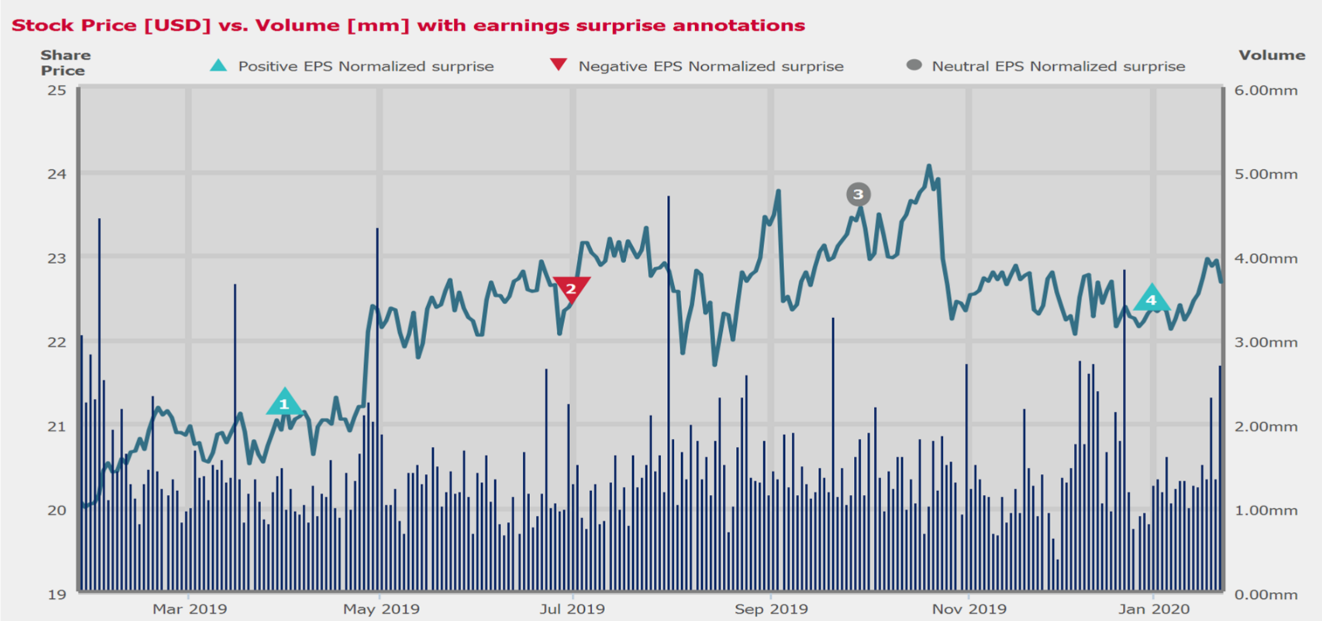
FQ4 2019 Earnings Call Transcripts

Thursday, January 23, 2020 8:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.42	0.47	9.30	0.39	1.79	1.84
Revenue (mm)	1598.00	1929.30	20.73	1514.00	6882.00	7213.70

Currency: USD
Consensus as of Jan-22-2020 10:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.38	0.40	5.26 %
FQ2 2019	0.48	0.45	(6.25 %)
FQ3 2019	0.51	0.51	0.00 %
FQ4 2019	0.42	0.47	9.30 %

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Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman

Craig Richard Smiddy
President & CEO

Karl William Mueller
Senior VP & CFO

Rande Keith Yeager
Chairman & CEO

ANALYSTS

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

ATTENDEES

Marilynn Meek
ZAIS Group Holdings, Inc.

Presentation

Operator

Good day, and welcome to the Old Republic International Fourth 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
ZAIS Group Holdings, Inc.

Thank you. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss fourth 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 January 23, 2020. 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 of the Board 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

Okay. Thank you, Marilynn, and welcome and good afternoon to everyone for this 2019 second half and full year earnings conference call. I have to say that in the interest of full disclosure, I need to note that this will be the last call that I'll be on as a part of Old Republic's management team. As we announced in the spring of last year, turned over the baton to Craig Smiddy who became CEO of our venerable Old Republic Company.

And that took place effective October 1, 2019. And at that time, we split, therefore, the chairmanship and the CEO positions. And as a result, we've got -- we've established a good transition period during which the CEO's position as our Chief Enterprise Risk Manager that, that transition can take place in a flawless manner. In this light, therefore, we agreed that I would participate in some manner on this call since I was at the helm of the company for a -- for 3 quarters of the year and Craig took over for the final quarter of the year, of course.

So the manner in which I will participate, I've decided, after these few words, is to turn our discussion over to 3 of our most senior executives at the head of our organization. And of course, that's Karl Mueller, our CFO; Craig Smiddy, our CEO; and Rande Yeager, who is the Executive Chairman of our Title Insurance group.

Having said this, I'll now turn -- that's you, Karl, to address some financial matters. And then Karl will be followed by Craig Smiddy, who will speak to the overall consolidated results, in addition to whatever Karl will be covering and our General Insurance group, of which Craig is also CEO.

And then Craig will be followed by Rande Yeager, whom, as I've said, is the Executive Chairman of our Title business, will go over happenings in that business.

And when they are finished, I'll have a few closing remarks. And as has already been said, we'll turn the meeting to any questions that any connected participant may have. So here is the mic. Karl?

Karl William Mueller
Senior VP & CFO

Thank you, Al, and good afternoon, everyone. As usual, I will comment on a few key elements of our financial results for the fourth quarter and the full year.

This morning, we announced fourth quarter net income, excluding investment gains and losses, $0.47 per share or $143.5 million, which is up 4.9% from the final quarter a year ago. For the full year 2019's net income, again, excluding investment gains and losses, was $1.84 per share or $554.2 million, which is essentially flat with 2018. These earnings produced a 10.8% return on beginning equity for 2019 and you compare that to an 11.8% return for 2018.

From a growth perspective, net premiums and fees earned grew by 11.4% in the fourth quarter to $1.6 billion. This was largely driven by our Title group. For the year, premiums and fees grew 5.1%. This was attributable to both our General Insurance as well as our Title operations, which more than offset the expected decline in the mortgage guaranty run-off business.

Net investment income grew by 2.3% and 4.4% for the fourth quarter and for the full year, respectively, as a larger invested asset base and greater dividend income that was attributable to the higher-yielding equity portfolio offset the slightly lower yields on our bond portfolio.

From an underwriting perspective, this year's fourth quarter and full year consolidated composite ratio of 95.1% was substantially unchanged from 2018. On a year-over-year basis, the claim and expense ratios also remained relatively consistent. Fourth quarter claims ratio, however, trended lower, and the expense ratio ticked upward, and that's primarily due to a mix of business shift towards the Title operation, which, as you can see, operates with a lower loss and higher expense ratio.

Turning now to the balance sheet. Total cash and invested assets increased by 10.2% to $14.5 billion at the end of 2019. The change was driven by a combination of strong operating cash flow, which totaled $936 million for 2019 as well as substantial unrealized market appreciation for both the fixed income and the equity portfolios. Composition of the portfolio remains relatively consistent compared to year-end 2018, whereby 72% is allocated to cash and bonds and the remaining 28% to equities. And that portfolio continues to focus on high-quality, long-term dividend-paying companies. On a consolidated basis, claim reserves developed without significant favorable or unfavorable development for the 2019 period. And that's compared to favorable development for 2018's fourth quarter and full year of 2.4 and 1.4 percentage points, respectively.

This morning's release along with Pages 4 and 5 of the financial supplement provide additional details regarding prior year claim reserve development on the reported claim ratios for each of our segments.

Old Republic book value per share increased to $19.98, up 16% for the year. Inclusive of our regular quarterly dividends and the $1 per share special dividend that was paid in the third quarter of last year, the total return on beginning book value amounted to just a little bit above 26%. That special dividend was evaluated in light of capital adequacy and liquidity needs along with the anticipation of withdrawing capital from our run-off mortgage guaranty operations. I will say, with regulatory approval, we currently expect to receive a return of capital totaling $150 million from this run-off business during the course of 2020.

Looking ahead with respect to our MI operations, we continue to proceed along the lines that we've previously disclosed. We've said that the options available to us include a continued profitable run-off of the business over the next several years or, alternatively, a reactivation of the business under new ownership, or finally, a reinsurance of the remaining book of in-force policies. We continue to assess all of our options in the interest of producing the most beneficial long-term outcome for all stakeholders.

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

So with that, I'm going to turn things over to Craig for some additional commentary.

Craig Richard Smiddy
President & CEO

Okay. So as the results Karl covered demonstrate, our strategic diversification between our Title Insurance business and our General Insurance business works very well for us. The uncorrelated nature of these 2 businesses helped produce steadier earnings for ORI overall, which is underscored by some of the figures Karl referenced. I'll reiterate a few of those: the 95.1% composite ratio; the 10.8% return on equity; the 16% increase in book value per share; and including dividends, the total return on book value of 26%, all for the 2019 year.

So specific to the General Insurance group, as the release indicates and as we show in the financial supplement, the group saw mid-single-digit growth quarter-to-quarter and year-over-year in both net premiums earned and in total operating revenues. Quarter-over-quarter operating income was relatively flat, while year-over-year operating income was up 1.7%.

Net premiums earned in commercial auto rose by 6% year-over-year, and this mostly reflects the positive effect of the rate increases that we've been achieving in this line that currently stand in the high teens for the 2019 year. However, premiums have been somewhat offset by a decline in the exposure base due to lower U.S. freight shipments in 2019 compared to 2018.

As can be seen in the financial supplement, workers' compensation experienced a 1.9% drop in net premiums earned year-over-year. And this is mostly resulting from rate decreases. And for 2019, those are in the low single digits. And those rate decreases correspond with lower claim frequency trends that we've seen in the past several years.

Quarter-over-quarter, the group's overall composite ratio rose slightly to 98.8% from 98.5%, while year-over-year, it stands at 97.5% for 2019 compared to 97.2% for 2018.

The group's fourth quarter expense ratio came in at 25.8%, while the full year 2019 expense ratio came in at 25.7%, up from 25% in 2018. This higher expense ratio in 2019 is largely due to differences in the mix of business. For example, workers' compensation, writings, as we just spoke about, are less than they were, and that typically comes with a lower commission rate. So that's what we mean by differences due to mix of business.

Turning to claim ratios. Our fourth quarter commercial auto claim ratio came in at an elevated 91.3% with the year-over-year ratio coming in at 84%. The systemic increases in claim severity trend in the U.S. commercial auto line continue. These are from the same underlying causes that we've spoken about now for several quarters, and we will continue to respond through rate increases, risk selection, accompanied with better levels of technology to help us in that risk selection, and we'll continue to perfect this until such time we see this claim ratio come back into line with our target, which remains in the low 70s.

Turning to workers' compensation. The fourth quarter claim ratio declined to 57.4% from 67.5% quarter-over-quarter. And year-over-year, this claim ratio declined from 70.7% in 2018 to 63.2% in 2019. And obviously, we remain very pleased with this improving result in workers' compensation.

General liability experienced an elevated claim ratio quarter-over-quarter and year-over-year. But as is the case we have said in the past, we write less premium in this line of coverage. So results tend to be more lumpy, more volatile quarter-to-quarter and year-to-year. For commercial auto, workers' comp and GL combined, given that we typically provide these coverages together to an account, the quarter-over-quarter claim ratio increased by 2.2 percentage points, while year-over-year, this claim ratio held relatively steady.

Still looking at the financial supplement, we note that the financial indemnity claim ratio, quarter-over-quarter and year-over-year, dropped significantly, coming back into line with our targets. And we think this improvement reflects actions that we've taken to address the higher incident of guaranteed asset protection, GAP claims, as well as the higher incidence of D&O claims that we experienced over the last few years. And as we spoke about in prior quarters, we were taking some fairly aggressive action in those regards.

All of the claim ratios we report, of course, we are inclusive of favorable and unfavorable development. And in the latest quarter, we saw unfavorable development of 2.9 percentage points, mostly resulting from commercial auto, while year-to-date, the development was unfavorable by 0.4 percentage points.

So again, speaking for the General Insurance group, we continually seek to selectively grow our business, make investments to sustain long-term growth and profitability, while proactively responding to loss trends that we're seeing. Underwriting profitability remains paramount, and there's a keen focus on improving our claim ratios, particularly our commercial auto claim ratio.

So on this note, I'll turn the discussion over to you, Rande, for comments on ORI Title Insurance group.

Rande Keith Yeager
Chairman & CEO

Great. Thank you, Craig. Appreciated. Of course, as we reported this morning, the Title group's quarterly and annual results were very good. In fourth quarter, we set an all-time record for underwriting revenues of $717 million. For the fifth consecutive year and 6 of the last 7, we surpassed the $2 billion mark for total revenues. Last year's 2019's $2.53 billion number is an all-time high. Favorable prior year claim development continued during the year, albeit at a slower pace than we've seen in the past few years. But backing out these adjustments, records were set for both quarterly and annual pretax profitability. We surpassed $200 million in pretax operating profitability for the fourth consecutive year.

Looking at the market, when the dust settles, residential mortgage originations are expected to be up about 23% in '19 over '18, exceeding $2 trillion for the year. Refinances accounted for almost 40% of that total. We're about 70% higher than in 2018. The latest Mortgage Bankers Association estimates call for similar origination markets in 2020, with refinances down moderately and purchases up slightly. On the commercial side of the business, the MBA predicts that a new record of $628 billion will have been established in 2019. And their optimism actually rises in 2020 as their projections increase about 9% into a new high of $683 billion. Certainly, all of this is a good news and would provide for a healthy marketplace in 2020.

Our market share indication last was 15.1%. And when the final numbers are tallied, I think that number will hold for the year. For 2019, our agency premiums were up about 5%. Direct operating premiums and fees were up about 12%. Our commercial Title operations continue to perform at a high level, with Title premiums from this source, commercial accounting for almost 20% of our total premiums.

We believe that our offerings of commercial and residential services are, of course, second to none in terms of underwriting expertise and customer support. Over the years, we've enjoyed a great deal of success in the Title group. And like all the other ORI business units, we emphasize integrity, expertise and culture. We like to say that we're steady as it goes. We stick to the basics. We're not chasing market share and don't try to buy our way to the top. Our acquisitions, when we make them, have strategic value in terms of where they are, the geography and our people's intellectual capital. And our reputation is for professional services. Our success when you look back, put it all together, is a by-product of a job well done in all of these regards.

So that's my report on the Title business. And now I'll turn it back to you, Al, for any closing remarks you may have.

Aldo Charles Zucaro
Chairman

Okay. As my 3 colleagues have just reported, our business continues to perform very well. Last year, by the way, we posted the highest pretax earnings in the entire history of our company. And as always, we are managing our way out of a few parts of the General Insurance business, in particular, which are and have been experiencing some temporary cases of hiccups, if you will. But we see this as part and parcel of what we do. And what we do in terms of the underwriting risk management process that our people from top to bottom are well equipped to deal with throughout the cycles of our business.

As Karl said, at both the ORI holding company and at the most critical insurance operating levels, we are very well capitalized to, at once, support the obligations on the right side of our balance sheet; two, protect the capital account on behalf of all of our stakeholders; three, maintain sufficient dry powder always to contain the possibility of negative eventualities and as well, provide for the strategic growth of our company, both organically and through well thought out external additions.

I believe that we have put together over the years and have now a fortress balance sheet and that we're in tip-top shape to do all of this, always with the style that Old Republic has been known for in all the years ahead.

So on that note, I think this is a good time to conclude and to open up our visit to any questions that participants may have. So there you go.

Question and Answer

Operator

[Operator Instructions] We will now take our first question from Greg Peters of Raymond James.

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

Al, I have enjoyed our 25-plus-year association. And I have to say, it's going to be surreal to not have your participation in these quarterly conference calls going forward. So good luck in your retirement.

Aldo Charles Zucaro
Chairman

Thank you, Greg.

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

Pivoting to the results of your General Insurance segment. I was looking at the table on Page 3 that you talked about in your comments, about the claim ratio for the fourth quarter and for the full year. And I was looking at the claim ratio, excluding the prior period claim reserves development. And the fourth quarter 2018, it was 75.9%, and then the fourth quarter 2019, it's 70.1%. So 500-plus basis point improvement in the underlying claims ratio. And then I'm trying to reconcile that with what is going on in your commercial auto and general liability business where, looking at the table on Page 4 of your statistical supplement, you're showing, frankly, some of the highest loss ratios in commercial auto and general liability that I've seen from your company in a long while. Maybe you can help put those pieces together, so I can think about your outlook in a more measured basis.

Craig Richard Smiddy
President & CEO

Sure, Greg. I will try to address that. So I think what is -- comes through here, obviously, is that the unfavorable development that we saw is driving those higher loss ratios that you speak about in the financial supplement.

For the current year, we feel very confident in the loss ratio that we have listed there. And there are a mix of business changes that impact that. Some of the business with lower loss ratios has increased proportionately. And as I spoke about earlier, workers' compensation has had less writings there. So that's an example where, even though our current year loss ratio is higher than the reported loss ratio, it creates those kind of differences that you're speaking about. But again, you can assume that the higher loss ratios that you're looking at are a result of some unfavorable development from prior years that we're getting caught up with, as some of that severity has come through.

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

Okay. I appreciate that comment, and I understand your business mix issues. So -- and I guess this speaks to loss picks, if the loss picks from prior years was -- were too low or you've had to adjust them, it just causes the question whether the loss picks for the current year in light of this new rising severity environment, if those are set at the appropriate levels.

Craig Richard Smiddy
President & CEO

Yes. It's a fair question. Again, I would reiterate, we feel very comfortable with those. We have spoken about the compounding effect of rate increases year-after-year. And that gives us some comfort in that loss pick.

Right now, for example, D&O, rate increases are -- on primary D&O, are in the 30% range, on excess D&O, are in the 60% range. That's consistent with what some other marketplace observers have reported as well. On our aviation business, right now are lost -- excuse me, our rate increases there are very strong and in the 20-plus range. So when we look at those kind of rate increases, they have to have an impact on the current year and future years. And therefore, we do feel confident about that. And on the other hand, the severity that has come through, particularly on auto, has demonstrated that the picks we had in years where we didn't yet have those kind of benefits from rate coming through, that's where we're experiencing some of the unfavorable development.

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

Maybe just one other piece for the General Insurance, and then I'd like to ask Rande a question, if it's okay. On the expense ratio side, it was up for the quarter versus -- quarter-over-quarter and I think part of it is business mix. But it's also up for the full year. And Al, I know you've talked about that range being in the 23% to 25% area. And Craig, I feel like you guys are very interested in seeing that lower. Can you talk about some of the levers you might pull over the course of the next year or 2 to drive a lower expense ratio?

Craig Richard Smiddy
President & CEO

Yes. Sure. Well, the easy one is as premiums grow and we don't increase our fixed cost, our staffing cost, that will obviously probably be the biggest contributor when it's -- when you see, for instance, our work comp premiums coming down, your expenses for that line tend to go up, at least your fixed expenses. So I would also point to our commercial auto. I made the comment that we've seen an offset there on premiums because of lower cost -- or excuse me, lower trucking revenues in general and lower amount of miles driven by trucking company shipments were down. So as that returns, we can expect our top line to grow without necessarily growing our internal cost.

We are taking a look at commissions in general, specifically on lines that may not be performing as well. So that's another area we're looking at. The thing that we don't want to do is starve ourselves of investment. We do have currently some investments and some newer start-ups that we've engaged in. Our residual market business, for instance, is a new business that has yet to produce premiums, and will do so beginning in 2020, and that will come on very quickly, but we consider that an investment, and we've been carrying that expense and our other operation, our specialty insurance underwriters operation is in a similar position.

So as those investments pay off and start to produce the kind of results we expect, we will see some improvement there. But what we don't want to do is starve ourselves of necessary investments in technology, for instance. We've made some pretty significant investments in technology to improve our ability to analyze claim data and improve our underwriting techniques. And I would tell you that our analytics are much better today than they were several years ago, and we continue to invest in that across our enterprise, and we don't want to starve ourselves there either.

So all of those things together, we think still we need to maintain that 23% to 25% target, and it remains our target. And as things shake out in 2020, we will certainly keep an eye on expenses and, if necessary, take further actions.

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

Okay. I would have more questions, but I'm sure there's other people that are going to ask. So I'll defer to them. So on the Title Insurance piece, Rande, can you give us a sense of how the commercial component has grown over the last year or 2 relative to where the market share is? And if you still think your opportunity going forward is a net market share gain where you'll grow faster than the market? And I'm speaking on the commercial side of the Title business.

Rande Keith Yeager

Chairman & CEO

Yes. Thanks, Greg. I mean, we've had tremendous growth on the commercial side of the business. It's about 20% of our premiums, I think, as I said, and we're looking -- if you go back 10 years or so, you're looking at a 5% or so market share.

We do a lot of our work through agents. We have a superior commercial unit that operates directly for the insurer. And you know what, we keep applying ourselves and the rewards keep coming. So we're optimistic about every unit, commercial no different than anything else. We feel good about where we are in the industry and how we're approaching it and the success that we're having.

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

And so would you -- do you think when the final numbers are tallied up, when you compare 2019 versus 2018, that you guys will have gained share in commercial relative to your peer group?

Rande Keith Yeager
Chairman & CEO

The MBA does put out through CREF some estimates on that. We have to estimate it. It's very difficult to tell because of the way -- we don't have a real good definition of those policies that you consider commercial. So if we look at it in terms of trends, do I think that we gain market share? Yes, that would be the bottom line. And do I think there's more room? Yes. So that's the answer.

Operator

[Operator Instructions] We will go ahead and take the question from Greg Peters of Raymond James.

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

Well, excellent. I'll take another bite at the apple or 2. Can we go back to the General Insurance business in the segment? And in the past, Al, you've been -- when you're doing the year-end call, you've been generous enough to provide some guidance around where you think the consolidated claims ratio or expense ratio or the composite ratio for General Insurance might range for the upcoming year. And from the analyst community perspective, we're watching some moving pieces and you've highlighted the commercial auto and the general liability and the workers' comp. Just wondering if -- when you went through your budgeting process, what you might be willing to share with us in terms of an expectation for 2020?

Aldo Charles Zucaro
Chairman

Well, Craig has gone over that to some degree. And maybe, Karl, you can add and, Craig, you can address that again because a lot rides on the mix of our business, and it's continually changing, as you can see in the statistical exhibit, right?

Automobile, which has a different cost structure attached to it, goes up. Comp, which has also a different cost structure, goes down and the combination of those things. And then you add to that such things as our financial indemnity business, so our home warranty business, which tend to have a pretty high expense ratio. As that mix changes, it has an impact over the overall expense ratio.

But as Craig said, okay, nothing has changed in our view of what our business can produce, given its current mix. And that is the loss ratio range that we show on the bottom of -- what page is it on, Page 4 and the expense ratio range that we see. We can't do much better than that than to speak to those 2 ratios, except into -- in ranges, in terms of ranges.

And I think we've had some difficulties from an underwriting standpoint, in parts of our business, notably the automobile business, right? But we think, over time, that fixes itself, and we think we can go even better than 95%, if only we have a permanent, and I think we're headed in that direction, a permanent change in direction in terms of loss reserves or claim reserve development. We've always been nicked -- well, for the several years, we've been nicked by that. But we think that we are in a strong reserve position, and those should start to diminish, if not evaporate from the consistency of the numbers. I think that's the best we can give to you, Greg, or anybody else about where we think the General Insurance group can operate given its current mix of business. Can it operate at a 80% combined? No, it will never happen. Can it operate at a 90% to 95% ratio? Yes, yes, absolutely.

And we've got enough pockets of business that we think we've corrected or in process of fixing and it takes 18, 24 months between the time that you change your underwriting, your pricing and so forth, before those results emanate into the earnings process -- the premium earning process.

So I think the combination of all that, I'm using a lot of words, but I, for one, am very confident that we can not only operate at that 95%, but start inching down from there. We certainly have a long-term record of having done that. I think a key point that Craig is making by suggesting that we don't want to starve ourselves from the standpoint of making investments in the future of our business. But when we do that, there's a price to be paid because any new operation, a new adventure we have in the insurance business, right, takes some time to gel. And initially, it creates expenses before it creates earned premiums. So I'm throwing all of that stuff up in the air because they are all part and parcel as to why we've had some difficulty reaching that 95%. But as I say, I think we're in good shape to gradually go somewhat before that -- below that 95% with the current mix of business.

Craig Richard Smiddy
President & CEO

Greg, I would just add that if you put 2 and 2 together here, when we say that we want our claim ratio averages to be in the high 60s to low 70s and that we're not there and that we're taking considerable action on rate and risk selection and other steps to address the problematic portions of our portfolio, obviously, we expect all those things to get us to those high 60s, low 70s. So therefore, our expectation is that we're going to incrementally improve, not worsen.

Aldo Charles Zucaro
Chairman

Right.

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

Okay. Al and Craig, there are 2 other questions for you, and maybe, Karl wants to chime in on this one. But I'm curious about changes, if there's any, in your attitudes around the investment portfolio, deemphasizing equities, more emphasis on equities, et cetera.

And then I know you spoke a little bit about this, Karl, around capital. But could you update us sort of where you are from a capital adequacy perspective? I know one of the metrics you've used in the past is the reserves to capital sort of metric. Give us an update of where you are on that and how you think the company looks going forward?

Karl William Mueller
Senior VP & CFO

Sure. Well, first, with respect to the equity portfolio, we've had this increased allocation to equity securities now for the past 5 or 6 years, I think since year-end 2013, when we began to increase the percentage allocated to equities. And that was about the time that the yields on our bond portfolio started their descent. So I would say the shift was, in part, intended to be a yield enhancement to the portfolio overall, such that we would not see a decline or a substantial decline in our net investment income. So the portfolio, which consists of about 100 equity securities, well-known companies with long histories of paying dividends and increasing dividends over time. So we feel very good about the portfolio, and the market has treated us well this past year in terms of market appreciation.

From a risk perspective, we do perform a periodic stress test to evaluate what a market correction would do to our shareholders' equity account. And we feel comfortable with the current allocation, such that it would not have a material negative effect.

So in terms of capital adequacy, we do follow a number of metrics, and you're right, one of the key metrics, particularly for our General Insurance group, is the reserves to statutory policyholder surplus ratio. And I think as we've stated before, the target range we set for ourselves is 125% to 175% leverage ratio. And I will say that as of year-end, 2019, we are operating at about 142% roughly, give or take a little bit, which is supportive of one of my parting comments that we are well capitalized and poised for growth, particularly given the long-tail nature of many of our coverages, we'll have an accumulation of reserves over time, and we'll need capital to support that growth in the business.

So we feel very good about capital levels across the organization. You look at our Title operation, and they've grown capital this year. And it's at a level that's sufficient to make us players in the commercial title space. And I think we've got roughly $570 million of statutory capital in that business.

I also talked about the MI business and the anticipated return of capital of $150 million this year. We feel very good about that. Obviously, it will require regulatory approval. We've had continued dialogue with the North Carolina department and have presented a dividend plan such that we feel confident that we'll be able to execute on that throughout the course of 2020.

So overall, we feel very good about where we are capitalized.

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

What -- Karl, just remind me where -- what was the capital position of the run-off MI business at -- as of 12/31/19?

Karl William Mueller
Senior VP & CFO

Yes. Right now, for all 3 of our MI companies, the total statutory capital is just a hair over $473 million.

Aldo Charles Zucaro
Chairman

And as you may remember, Greg, our feeling is that, that business should be probably totally run off by 2022/'23. And as Karl indicated earlier, we think that if we do nothing except run it off, that the remnants of insurance in force that's in place could be reinsured, and would, as a result, enable us to decapitalize the company and take the remainder of that capital. And we've said that it is not unthinkable that at the end of the rainbow, we could be staring at $500-plus million in that company. I mean, it is well capitalized, and it's got a good book of business. And unless all hell should break loose in the real estate business, in the housing business, right, the loss ratios should continue to be contained there and, therefore, provide that assurance that that pot remains at the end of rainbow.

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

Can you just remind -- go ahead, sorry.

Aldo Charles Zucaro
Chairman

So we need to do this in a very gingerly manner. As Karl said, we take it one step at a time based on what's happening to the in-force of that business. And as you said, the first step we're taking this year with the full approval concurrence of the North Carolina department. And then we know, we see how things develop this year, and we take the next step, so that it's a gradual process over the next 3 or 4 years, as long as we own the company.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

Correct. And if I'm not -- well, maybe you can clarify, the special dividend that was issued last year, the funding of that came in part from the excess capital that's sitting in the run-off MI business? Or was the funding of that, is that M&A elsewhere?

Karl William Mueller
Senior VP & CFO

Yes. Let me just clarify. The funding for the dividend that was paid in September came from capital resources at the parent holding company level, but it was made in anticipation of receiving a distribution from the MI companies in 2020. That was a key consideration.

Operator

That concludes today's question-and-answer session. At this time, I will turn the conference back to management for any additional or closing remarks.

Aldo Charles Zucaro
Chairman

No. We appreciate everyone's participation. And I appreciate, in particular, your participation, Greg, for asking some very good questions and keeping us on our toes. That's all good. And I'm sure that my colleagues here are going to be looking forward to the next conference call we'll have, and I know that the news, based on everything we see, is going to continue to show that our good Old Republic ship, it will be sailing majestically going forward.

So with all that, we wish you a happy day.

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