S&P Capital IQ

CONTENTS

Old Republic International Corporation

NYSE:ORI

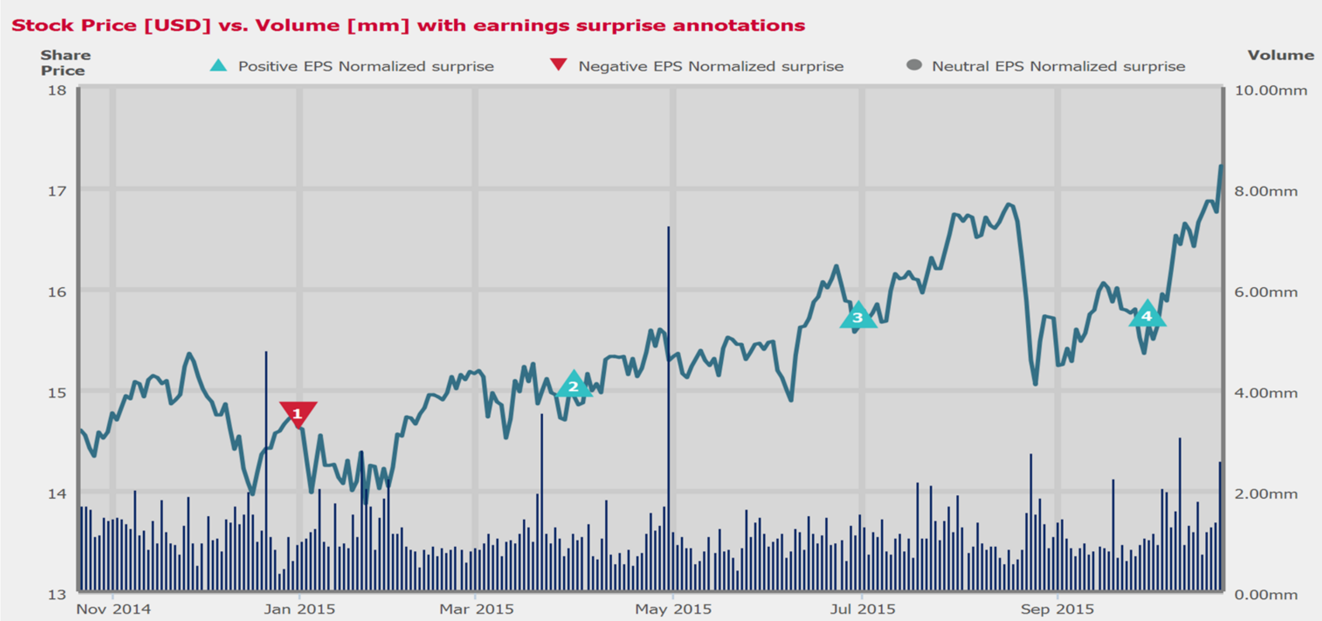
FQ4 2015 Earnings Call Transcripts

Thursday, January 28, 2016 8:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.27	0.29	▲7.41	0.27	1.28	1.28
Revenue (mm)	1441.00	1465.90	▲1.73	1370.00	5726.00	5674.80

Currency: USD
Consensus as of Jan-15-2016 9:20 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.24	0.21	▼(12.50 %)
FQ1 2015	0.24	0.32	▲33.33 %
FQ2 2015	0.24	0.32	▲28.00 %
FQ3 2015	0.27	0.35	▲29.63 %

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

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

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Marilynn Meek

Rande K. Yeager
Chief Executive Officer and President

Unknown Executive

ANALYSTS

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

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

David Lapierre
Loomis, Sayles & Company L.P.

Stephen Mead
Anchor Capital Advisors, LLC

Presentation

Operator

Good day, and welcome to the Old Republic International Fourth Quarter and Year-end Call. [Operator Instructions] And I would like to remind everyone that this conference is being recorded. And I would like to turn the conference over to Marilynn Meek. Please go ahead.

Marilynn Meek

Thank you, operator. Good afternoon, everyone, and thank you for joining us for Old Republic's conference call to discuss fourth quarter and year-end 2015 results. This morning, we distributed a copy of the press release. If there's anyone online who did not receive a copy, you can access it 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 dated January 28, 2016. Risks associated with these statements can be found in the company's latest SEC filings.

Participating in today's call, we have Karl Mueller, Senior Vice President and Chief Financial Officer; Craig Smiddy, President of the Old Republic's general insurance group; Rande Yeager, Chief Executive Officer of the Old Republic's title insurance company; and Al Zucaro, Chairman and Chief Executive Officer.

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

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Thank you very much, and again, welcome, everyone, to this discussion of our company's business for the year just ended a few weeks ago. Obviously, we're -- in light of the discussions we've had in some of the prior years, we're happy to be here as bearers of good news for our shareholders and all of our company's other important stakeholders.

So as we've indicated, as -- and as we've done in the past, we'll discuss our results in the same order as they're outlined in this morning's news release. We'll, therefore, start with Craig Smiddy, who will speak to our general insurance business; and he'll be followed by Rande Yeager for title insurance; myself, for a few comments on our runoff business; Karl Mueller will add more color to our financial situation; and then we'll go on to closing comments and the question-and-answer portion of today's business.

So let's get going with you, Craig Smiddy, and your comments on General Insurance.

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

Okay. Thank you, Al. Comparing fourth quarter 2015 with the same quarter for 2014, the general insurance group experienced 5.2% growth in net premiums earned. Comparing year-end 2014 to year-end 2015, the increase was 5.8%. While we experienced relatively consistent growth rate throughout '15, we believe this level of growth will likely decline in 2016 as we maintain our underwriting disciplines in an increasingly competitive marketplace. Generally speaking, we still expect organic growth and strong retention ratios on most of our existing accounts, along with a moderate amount of new business. As we already pointed out, however, organic growth, retention ratios and new business will vary by line of coverage and insurance products.

Similarly, because we operate in several distinct specialty markets, we're seeing a variety of marketplace rate pressures. Despite these pressures, all of our operations continue to ensure rate adequacy in order to achieve an underwriting profit and avoid adverse loss reserve development down the line, even if this means reducing the top line. So in this context, most of our operations are achieving low- to mid-single digit rate increases on lines of coverage where they're increasing -- where there are increasing loss costs. Additionally, on segments of our business where we seek to improve the underwriting results, we are requiring necessary rate increases there, too, in conjunction with adjustments to our risk selection criteria in order to reorient our business mix and better ensure an underwriting profit.

So we're pleased with all of these efforts, and they're gradually paying off. The general insurance group's overall composite ratio improved from 106.5% in the fourth quarter of 2014 to 99.5% in the fourth quarter of '15. This overall composite ratio improved from 100.8% at year-end 2014 to 97.6% at year-end 2015 with all of the improvement coming from the claims ratio component.

Further breaking down the favorable composite ratio trends and the claim ratios for you, we'll -- I'll do this for our major lines of coverage, namely commercial auto, workers' compensation and general liability where we're seeing the following. On our commercial auto claims ratio, it increased from 72.6% in the fourth quarter of 2014 to 80.3% in the fourth quarter of 2015. The year-end 2015 auto claim ratio was 77.8% versus 74% at the end of 2014. We continue to monitor and respond to severity trends in this line, and accordingly, this is an example of a line of coverage where we're achieving mid-digit rate increases to address the kind of severity trends that we're seeing.

The workers' compensation claim ratio improved dramatically from 103.6% in the fourth quarter of 2014 to 83.4% in the fourth quarter of 2015. At year-end 2015, this ratio was 80.7% versus 89.2% at year-end 2014. As we've stated previously, as we put reserve strengthening behind us, we expect the claim ratio for this coverage to keep trending favorably to more historic levels in the mid-70s.

The general liability line of coverage continues to be volatile quarter-to-quarter because of the lower premium volume we write in this line. The claim ratio declined from 96.1% in the fourth quarter of 2014 to 79.1% in the fourth quarter of 2015 and from 88.2% at year-end of 2014 to 76.8% at year-end 2015.

The remaining lines of coverage we underwrite continue to perform very well in 2015. So in 2016, each of our specialty operations will continue to enhance their competitive positions within their respective specialties. And our overall focus remains on the production of favorable underwriting results and the achievement of the long-term objectives we outlined in our 5-year plan that we established back in 2012.

So on that positive note, I'm pleased to turn the meeting over to Rande Yeager, who will address our title insurance group's performance.

Rande K. Yeager
Chief Executive Officer and President

All right. Thank you, Craig.

And of course, I'm happy to report that the fourth quarter marked our third consecutive quarterly record for 2015. As reported this morning, the title group generated a pretax operating profit of $48.1 million. Last year, we had set the previous fourth quarter record, coming in at $40.5 million. This year's fourth quarter bested that mark by $7.6 million or almost 19%.

It's not hard to imagine when you have 3 record quarters, 2 of them all-time records for any quarter, that a record year will come together. And of course, that happened in 2015. Pretax income was $166.8 million compared to $99.5 million in 2014, and this obviously represents an increase of $67.3 million or almost 68%. Our previous full year record of $129.8 million was set in 2003. And now, we've exceeded it by $37 million or a bit over 28%.

We also established a new total operating revenue record of $2.08 billion in 2015, and this represents the second time in the past 3 years that we exceeded $2 billion. Third quarter market share came in at 15.1%, and we expect similar share when the industry-wide numbers are tallied for the year. Also, we set high watermarks for agency, direct and commercial services.

Titled segment's expense ratio dropped to 89.2% in 2015, and our claims continued to develop favorably, coming in at 3.4% for the fourth quarter and 4.9% for the year as a whole. In a reasonably good housing market, we expect the claims ratio to stabilize right around this level.

We also accomplished these very favorable results despite the fact that we experienced a hiccup that we predicted in the fourth quarter relative to CFPB's new mortgage disclosure rules. At the onset, the rules, which, as you remember, became effective in October, probably disrupted our business for about a 2- to 4-week period and things started to normalize. And the new requirement certainly won't decrease demand over the long run, and we're confident that the real estate industry will become more efficient as they gain experience and consumers will also be better served.

I can't predict with any certainty that the 2016 -- what the 2016 market's going to look like, but mortgage interest rates look relatively stable, housing demand is ticking upward and the commercial business continues to grow at a terrific pace. While there's not a lot to be critical of in our 2015 results, we've certainly not achieved our full potential. There's more to do, and we intend to get bigger and better and contribute even more to the very healthy ORI family.

And with that, I will turn it over to Al Zucaro.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay, Rande. I'll say a few words about our runoff RFIG business, which played out pretty much as we expected save, again, for the effect of a lingering litigation exposures that we continue to deal with. We have been -- as you may recall from prior calls, that we have been hopeful of resolving the lion's share of these litigated matters by year-end '15, but that, of course, did not happen. As we've disclosed in the most recent 10-K and 10-Q reports, we've got MI and -- that is mortgage guaranty as well as CCI, or consumer credit insurance disputes, largely with the Bank of America and, most critically, its Countrywide acquisition of several years ago.

As to the MI portion of the litigation with Bank of America, however, we believe that it's now in the final stages of everybody dotting the Is and crossing the Ts, and we've got very good confidence that we'll put this behind us within established reserves as of year-end 2015. So there should be no dollar surprise when we finally put our John Hancocks to this litigation matter.

On the other hand, the resolution of the Bank of America litigation piece in the CCI runoff, well, that's proving itself to be a much more daunting task. And the underlying conduct that gave rise to our law suit against this giant financial institution is of a piece with Countrywide net fraud and misrepresentations that led also to that bank's multibillion dollar settlement with the U.S. Treasury and others, most specifically, to a grand degree in 2015, as I recall. But as we speak, however, we're still hopeful of resolving our differences with Bank of America in the near to intermediate term without having to incur greater costs than have already been posted by both sides with respect to the cost of lawyers and what have you in the past several years.

Otherwise as I have just indicated, the runoff business is producing reasonably positive results, and we think that, that business is going to hum along on a declining scale, obviously, as it shrinks over the next several years.

So on this note, briefly looking at our RFIG runoff, I'll turn it over to my friend here, Karl Mueller.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. Thank you, Al. This morning, we reported consolidated assets totaling $17.1 billion, which is largely unchanged compared to this year's third quarter as well as year-end 2014. The shareholders' equity account likewise remained relatively flat at $3.8 billion at year-end compared to the third quarter of this year. However, book value per share rose from the third quarter to end the year at $15.02 per share.

So let me now summarize the key elements of our financial condition as of year-end 2015. First of all, cash and invested assets grew somewhat year-over-year to $11.5 billion, and the growth was driven primarily by additions to the cost basis of the investment portfolio, which approximated $560 million for the year. This increase was, however, partially offset by further declines in fair value measurements of the investment portfolio.

At year-end, the portfolio composition was essentially unchanged from the end of the third quarter with approximately 82% allocated to fixed maturity and short-term investments, with the remaining 18% directed towards equity securities. The credit quality of the fixed income portfolio retains its overall A rating, and the average life remains at approximately 5 years.

Investment income increased to $99.7 million, up 9.4% by comparison to last year's fourth quarter. For the year, investment income rose 12.5% to $388 million. Now there's several factors that drove this gain in investment income. The main contributor was the greater invested asset base, accompanied by a year-over-year increase in the overall portfolio yield. Additionally, as you may recall from comments made during the third quarter conference call, investment income for 2015 benefited from a nonrecurring special dividend that added approximately $10 million to the total for the year. To add to that, we received another special dividend of approximately $3 million during the fourth quarter.

Consolidated claim reserves remain largely unchanged at year-end by comparison to the amount in the 2014 ending balance sheet. For all of 2015, consolidated claim reserves developed moderately favorable in contrast to the slight unfavorable development for all of 2014.

As noted in this morning's release, the general insurance group, by itself, however, experienced unfavorable reserve development during the fourth quarter and full year, which added 3 percentage points to the claim ratio for the fourth quarter and 1.5 percentage points for the full year. Despite the lingering unfavorable development, the year-over-year improvement in prior year claim development provides evidence that the general insurance group is trending ever closer to its long-term experience of reserve adequacy.

Moving into the mortgage insurance group. They experienced continued favorable development of prior year reserves as quantified at the top of Page 4 of this morning's news release.

And finally, the title group reserves developed moderately redundant during the current year, benefiting loss ratio by 0.6 percentage points by comparison to 0.8 percentage points in the prior year.

Shareholders' equity at December 31 totaled $3.8 billion, as I mentioned earlier, or $15.02 per share, a decrease of $0.13 per share for the year. The reconciliation of book value per share shown on Page 6 of the release. The table shows that net operating income in excess of the annual cash dividends that we paid to our common shareholders was additive to Old Republic's book value. The continued volatility in reported book value emanates primarily from realized and unrealized gain and loss activity in the investment portfolio. The recognition of realized gains during the year totaled $0.23 per share, but that was more than offset by the $0.96 per share decline in the fair value of the investment portfolio, which occurred during the second half of the year, in particular.

Finally, the capitalization ratios shown at the table on the bottom of Page 6 were relatively unchanged at year-end 2015 by comparison to 2014.

So those are the highlights of our financial condition, and I will now turn the call back to Al for closing comments.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So as we just heard, big picture-wise, the reasonably good consolidated underwriting results and a strong balance sheet, in our view, truly reflect the completion of our most successful operating year since the onset of the Great Recession.

And as you see in the release this morning, we booked $540.5 million of pretax operating income in 2015. And of this amount, 72% came from investment income, which Karl just spoke to, and the rest, 28%, came from, of course, the most important part of our business, which is the underwriting and services -- and related services portions of it.

Now by comparison, our best pretax operating income number was posted in 2005. Now that was a couple of years or so before the start of the Great Recession. And in that year, net investment income represented 52% of the total pretax operating income. That means we had 48% instead of 28% of our pretax operating income coming from the most critical portion of our business. So our near-term challenge is to get back to that 2005 performance level, which incidentally was highly influenced by the very strong underwriting contribution of what is now the runoff RFIG business.

So if we leave aside the remaining litigation that we spoke to a few minutes ago and that it will come to a standstill, this runoff should ease itself into a fairly steady though declining contribution to our company's intermediate-term earnings stream. Looking ahead, we'll likely find a new way in place for it to operate under circumstances that best ensure its appropriate future without adding exposure to our company's long-term business interests.

As to the rest of our business, I think it faces reasonably good prospects. All we have to do is listen to what Craig said before and Rande and that those prospects should be helpful in meeting our challenge of improving the bottom line, principally on the basis of the underwriting aspects of our business.

As Rande noted, we sure got the wind at our back in the title insurance business. We've got very good reputation, not to brag, for providing industry-leading services; for doing things right; by the uses of our products, whether they be agents or retail buyers or commercial buyers of it; and of course, our strong financial underpinnings in title insurance, in combination, going to ensure the continued success and growth of this business segment for Old Republic.

In general insurance, again, as Craig mentioned before, we've worked hard the last couple of years, in particular, to address pricing and claim reserving issues in some parts of our workers' compensation insurance, in particular. And at this stage, we feel reasonably confident that most, if not all, of this fixing up is behind us and that we should experience gradually improving underwriting results from both this workers' comp coverage as well as the many others that we provide in our fleet of general insurance subsidiaries.

So bottom line, when we shake all of this up, we feel very good about our prospects for 2016 and beyond. So this is a good news report again for 2015, and I think it will lead to improving results as we go forward. So as what's stated initially, we'll move this visit to the questions and answers that we'll provide as they come. So operator, would you like to open the meeting to the questions?

Question and Answer

Operator

[Operator Instructions] And we'll go first to Greg Peters at Raymond James.

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

Well, I'm happy to an extent, but in my role, I have to nitpick. So here I go. So relating to the adverse reserve development in general insurance, Karl, perhaps you could provide some color regarding which accident years are the problematic ones? And what lines of business you're experiencing this development in?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Well, Greg, as Al mentioned, the adverse development has been predominantly focused in our workers' compensation line of business for a couple of our operations, in particular. And I would say that the more recent accident years seems to be holding up pretty well. They've had the benefit of some of the rate actions that Craig spoke to earlier. So we're really looking at accident years, I would say, 2012 and prior, predominantly, and I'll leave it at that.

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

Okay. And Craig, on the commercial auto results where you are reporting some deterioration, I suppose, is this a case where the accident frequency that we're hearing about in personal lines is bleeding over to the commercial auto side? Or is there some other issue at play?

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

Right. Well, as we spoke about the last few quarters, we've been keeping a close eye on frequency and severity. And frankly, most of what we're seeing is really coming from severity. So we continue to monitor that, and as I stated, we're making sure that our rates are recognizing that increase in severity trends. But as you've heard from many carriers in the industry, they're seeing a similar result on commercial auto. And for us, it's been primarily the severity piece of it.

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

I see. If I just look at general insurance in its entirety, I believe you have a long-term operating margin target of, say, 15% to 20% for the general insurance piece. And by my math, it looks like you're just under 12% for 2015. So I guess my question is, given the market conditions, which, Craig, you outlined as being pretty intensely competitive, do you think it's possible that you can get to this objective sometime between 2016 and '17? Or because of conditions, do you think you have to reduce your expectations?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, I think this -- Greg, we think we've got the reserving challenges under our belt. And as Karl mentioned, we have about, what, 3 percentage points of adverse.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Yes.

Aldo Charles Zucaro

Chairman and Chief Executive Officer

If you eliminate -- if you just eliminate that, Greg, it gets you pretty close or a long way towards that underwriting margin. And then we've got an intensive amounts of cash flows running through the business, and those are being invested, as we have indicated, to a large degree in equities of very high-quality companies, which, even in this lousy stock market, are still persevering and paying their cash dividends consistently. And so far as bonds are concerned, we're doing pretty well there in the 5- to 10-year horizon without diminishing the validity of our asset-and-liability matching process. So that -- we think that the combination of just a better reserving going into the future and a -- some increase in investment income, together with doing a better job, admittedly, on the underwriting side, which means pricing and risk selection, I mean, we probably are going to see a much more stable top line, but it's going to be a better quality top line. So the combination of those 3 elements, Greg, is what we think is going to lead us to get to close to those underwriting margin -- those operating margins. So we're not backing off of that. And we still think that by 2017, as you know, we set ourselves a 5-year plan at the end of 2012 when we reach a good -- our capital allocation process at Old Republic. And we think that we can reach, as we like to call it, the top of the mountain, which means reaching our earnings that were achieved in 2005, 2006 before the U.S. economy imploded through the Great Recession. Those are our objectives, and I think they are very achievable, together, of course, with a much stronger title insurance business than we started back in 2012 with.

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

Indeed. I feel like I have to log in with my obligatory runoff question. AIG has been obviously in the forefront of the press with announcements of changes that they're making at their company, including spinning off United Guaranty. And I'm wondering how that fits into your calculus as it relates to your mortgage insurance operations, if at all. And then secondly, I'm not trying to get too granular here. But it seems like maybe you're pushing back the expectation for a resolution on the outstanding litigation for some period of time. I -- it -- I'm just trying to read through the -- what your comments are. So any follow up on that would be helpful.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, as to your latest point, that -- if that's what it sounded like, that's not the case. I mean, I was only speaking in terms of having had hopes of resolving, both the MI and the CCI litigation before by year-end or so. And I think that's what we said when we were on the road earlier -- I mean, late last year. Now I think both litigation pieces, certainly the MI, is going to be resolved anytime, sometime soon. The CCI with Bank of America, that may be a little more treacherous. But everybody's going to come to the table and reason with each other and then -- and we'll resolve it. So I don't mean to -- that it's going to be pushed back. And so your first question, we've said very consistently that we either are going to keep RMIC, CCI and runoff, and we think that the runoffs are going to be successful or else we're going to do that and a combination of finding a better place, a better set of circumstances for RMIC to perhaps rejuvenate itself. But either way, we're going to -- the main thing for us is to make sure that we honor our legitimate obligations for those businesses, and the rest will take care of itself. I think you speak with -- about AIG and its issues with the mortgage guaranty and other parts of its business. We're not AIG by any stretch of the imagination, and what they do is not necessarily indicative of solutions that would apply to Old Republic.

Operator

[Operator Instructions] We'll go next to David Lapierre at Loomis, Sayles.

David Lapierre
Loomis, Sayles & Company L.P.

Just a quick one on the reserve add in general insurance. Is the fourth quarter normally when you would just kind of take a deeper look at the reserve and kind of try to set up for the following year?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

No, no, David. I mean, we go through the same process every quarter when we close the financials, and this quarter was no different. So the 3% deficiency was just slightly above where it's been earlier in the year, and I don't think you should read anything into that. They're nothing out of the ordinary.

David Lapierre
Loomis, Sayles & Company L.P.

Okay, great. And is there any other notable seasonality in the general insurance business, either on the top line or claims area or anything?

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

Generally speaking, there isn't. Of course, with auto liability, you have storms and things that affect travel and that sort of thing. But generally, we're not seeing any kind of seasonality in most of our lines of business.

Operator

And we'll go next to Stephen Mead at Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

Can we go back -- I just want to kind of get a little clarification on the runoff business and the claims increase in the CCI business fourth quarter versus fourth quarter, the $27.2 million versus $15.6 million. And sort of in terms of expectations for CCI as a runoff business in of itself, where does it stand? And what are the key drivers? And you referred to the litigation. But I was just wondering in terms of just on an ongoing basis, where we are with that business?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, starting with the top line, that business is experiencing the same kind of trends, patterns as the mortgage guaranty business is experiencing, meaning that it's a runoff book on a slowly, gradually declining in-force, meaning loans that remain in force, pending they're being paid off in one fashion or another. You've got an improving economy, which affects payrolls and affects housing values. So those -- that -- those 2 elements affect both MI and CCI positively. We think that the lynchpin in both lines, by the way, if you look at -- I don't know, but what was it Karl, second quarter and third quarter in MI, you saw a jump in the current -- in the claim ratio. And that was driven by the litigation exposure. When it comes to CCI, we don't have the same patterns even though, oddly enough, the litigation is with the same bank, namely Bank of America. The issues are somewhat -- been somewhat different between the 2 books of business. And quite frankly, what we do, as Karl again said in answer to the immediately preceding question, we do look at our situation with the lawyers every quarter. And we assess which way the wind is blowing, and we react to legal bills that we get, which are pretty daunting. And we make judgments as to how much reserve we've got up and how likely is it that those could be insufficient on the basis of both indemnity exposures as well as legal or allocated loss expense exposures, as we call them in our business, that we have. So if you look at the patterns, as I say, quarter by quarter for the last 2 or 3 years in MI and CCI, you will see those claim costs bouncing around by virtue of the effect of this quarterly review process, which assesses the exposure we have in both areas of litigation. Does that cover it, Karl?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Yes.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

I hope that answers your question, Steve.

Stephen Mead
Anchor Capital Advisors, LLC

Yes. But is it fair to say in terms of the 2 pieces of business, they are very separate pieces of business. And in terms of kind of a final resolution for Old Republic, you could resolve one versus -- and still be dealing with the other? And looking at the mortgage insurance business, is it fair to say we're closer to a kind of final solution or a resolution where you're not dealing with that business anymore?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. We believe, and still, believe that we should not come to any kind of conclusion about a final resolution, if there is such a thing, on the -- on either part -- parts of the business, unless we get this litigation out of the way. We've got to get rid of this, okay? And so one step at a time: get rid of litigation, make sure that that's out of the way, and then when we're looking at a normal ongoing runoff business, then we'll take a look at what the various options are that we have. Okay?

Stephen Mead
Anchor Capital Advisors, LLC

And help me out. In terms of swing on the litigation side, where does Old Republic sit in terms of, if things go in your favor, what you could hope for versus, if things don't go in your favor, what would be the impact? And I guess it's -- I guess you can't really speak to that. Can you? Or can you?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, that's right. You've got it.

Stephen Mead
Anchor Capital Advisors, LLC

Okay, all right. On to just the general insurance, if I could. On the workers' comp, I just noticed that the -- in terms of net premiums quarter-over-quarter, they declined this year versus last year. So on an annualized basis, workers' comp was up, and you're getting a better result from an underwriting standpoint. But where we do we stand in terms of the base of business in workers' comp and sort of the outlook for 2016 in terms of -- is that where most of your more difficult year-over-year comparisons lie as it relates to premiums?

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

Well, as I pointed out earlier, our focus is on underwriting profitability and making sure that we're achieving the appropriate price and getting the appropriate rate. And if that doesn't happen, then we're willing to shrink the top line. And I think what you've pointed out here is precisely an example of that, where if rates are inadequate, we're not going to chase core business. So the improvement in the claim ratio, also, as we discussed, is really coming from that -- the reserve strengthening that is less so than it was previously, which we expect to continue, and that is that we'll have less reserve strengthening, if any, going forward. So our -- but our bottom line focus is making sure that the business we're putting on the books today doesn't produce adverse development in the long run and that the business we're putting on the books today is ultimately going to produce an underwriting profit. And therefore, if that means that the top line comes down a bit, so be it, but that is a clear message that's well understood by all of our subsidiary operations.

Stephen Mead
Anchor Capital Advisors, LLC

Okay, all right. And then one last question, Al, just on the -- your approach to the investment portfolio. Do you provide any sort of detail in terms of what the equities are generating in current income or yield at this point and what your sort of general -- you talked about sort of quality companies with good dividends and that kind of thing. But what is that portfolio throwing off in terms of yield at this point?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Well, at the end of the year, that portfolio was generating about a 4.5% yield based upon the cost of those securities.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

A large part, a large part of our stock portfolio, even though we keep adding to it, a large part of that portfolio, Steve, was acquired back in, what, 2000 -- since 2016, 2000 -- the end of '13 and all of '14, when we had some very good opportunities to buy quality names at yields of 4% or better. And that's why, as Karl just indicated and as he also indicated in his comments and as you might expect in a portfolio like that, we do have our share of oil stocks, the Exxons and so forth, so admittedly and purely quality companies. But nonetheless, from a market valuation standpoint, we've taken some hits from an unrealized valuation standpoint. But these companies have typically been selected from -- the dividend achievers list that flowed around Wall Street, and they're all good quality stocks. They're all -- they're quality stocks that you put in the lower drawer of the commode and you pretty much live with them. They're here to stay. And that's why we have the kinds of good yields on that portfolio. We're not going to be adding significantly to it because we're reaching our limits in terms of the balance sheet management of our investment portfolio. But we'll sell here and we'll buy here. But basically, you should expect us -- to see us maintain that portfolio pretty much where it's at now.

Operator

And we'll go next to Adam Liebhoff at Loomis, Sayles.

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

If I could focus on title, and so maybe this question is for Rande. It looks to me like you guys finished the year at around 8% margin, plus or minus, and I understand that originations are fairly well depressed at this point. But given that some of your larger competitors are higher on the margin side, where do you think that can ultimately go? And then staying on title, if you could give us some color perhaps on the mix of business? And I'm thinking new purchase versus refi, and let me leave it there for now.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Rande, you want to handle that?

Rande K. Yeager
Chief Executive Officer and President

Sure, yes. Thanks, Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Sure.

Rande K. Yeager
Chief Executive Officer and President

A couple of things. I think when you look at margins, you really got to look at statutory results and really see what you're generating in terms of margin off of title premiums as opposed to a lot of ancillary services that are credited. We have some too, but I think the fairer way to kind of do a quick comparison is just look at statutory instead of GAAP results. If you can get to that level, you can kind of determine something. Plus, we include all our corporate expenses within our results. So there's some apples and oranges that, even though we're on the same business, you kind of look at. But I think the important question is where we do think we can go, and there's certainly room. We've concentrated a lot on our commercial side of the business. We were up about 20% for the year in the fourth quarter, which is traditionally a strong quarter for commercial business. We were up about 30%. There's a very good margin on the commercial side of our business. It's very labor-intensive as far as intellectual resources is concerned, but it's where we can really make an impact. And that business has been growing just leaps and bounds. So when I look at margins, commercial is certainly a strong area that we've concentrated on. And also, we're seeing more of a resale purchase money kind of market as opposed to refinance, as you might well imagine, and there's a better margin on that. So as far as looking at those margins, I really think there's room for growth. Claims have certainly stabilized and developed favorably since the recession years when we were up higher, and we take a pretty cautious approach to looking at our claims. We're pretty conservatively reserved but realistic in terms of what our models actually show. So I think there's certainly room. Margins increases of 2%, 3%, 4% in our business would be pretty substantial. So -- but we're working on those areas that are really going to, I think, enhance that margin.

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

Okay. And then maybe one for Al. You kind of touched on this when you were talking about the investment portfolio with regard to energy exposure. Maybe you could talk about -- I imagine it's moderate, but across the different lines. Maybe you could talk about client exposure to the energy complex.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Climate -- client, policyholder exposure?

Adam C. Liebhoff
Loomis, Sayles & Company L.P.

Yes, client. Yes.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. We've got -- what would you say? I mean, most of our energy exposure is in our BITCO subsidiary, and that's a -- pretty much a middle market, energy-servicing type of exposure. And I would say that the premium on a direct basis for that business is no more than $50 million or so.

Unknown Executive

Yes, okay. That sounds right.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

So it's not a great, big exposure. The only other area where we have some energy exposure is in our so-called risk management business, where we address the insurance needs of major corporations in services or manufacturing or what have you. And there, we have a couple of accounts that are energy-related. But again, those accounts tend to be large companies, as I say, with sturdy balance sheets. We retain quite a bit of the lower-layer insurance exposure for their own account so that we are not overly or significantly exposed to any degree to what might happen to their workforce or what have you. So I would say that when it comes right down to it, the biggest exposure right now we have in energy is the unrealized loss that we have on some of our major holdings of Exxon, Conoco and Chevron and, what is it, 2 or 3 other, BP and Royal Shell. Those are the 5 major oil companies in which we have equity holdings, and then we've got a couple of servicing companies like Helmerich & Payne and I forget now.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

National Oilwell Varco.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. National Oilwell, yes. So we've got the ability to hold on to those securities. We don't have to sell them until and unless we are ready to be sold. So the bottom line answer to your question is, yes, we've got energy exposure, but it's not significant in the overall scheme of things.

Operator

And at this time, we have one question remaining in the queue. [Operator Instructions] And we'll take our next question from Greg Peters at Raymond James.

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

Just wanted to come back with 2 cleanup questions for purposes of modeling, and I'm sorry if I missed it in your answer, Rande. But I know you spoke about the growth in the commercial side, and I was wondering if you could talk or speak to the origination in noncommercial, the residential side and what your outlook is for that business near term. And then the other cleanup question for -- was for Karl, where I think you said there was $10 million of special dividends and $3 million in the fourth quarter. And am I to presume that flowed through the investment income line of general insurance?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. I'll answer that, and then Rande, you can take your question. Yes, I -- those all flow through net investment income. I simply highlighted them because they were unusual in nature, will not be recurring and certainly will have an influence on the trend that you see in net investment income.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes. One was the Kraft merger, and what was the [indiscernible]? Technically, it was the Kraft merger that took place in the second and third quarter of last year.

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

And [indiscernible] Rande?

Rande K. Yeager
Chief Executive Officer and President

Yes, okay. Yes, Greg. Everybody talks about a kind of a suppressed residential market right now. But the MBA just released some new statistics for December, and sales were actually up 8% over the year, in December over previous year. So interest rates are down. I don't see that we're going to see a significant increase in residential rates, mortgage interest rates. And as a result of that, there's going to continue to be demand. I don't know that the stock market has a whole lot of play on whether people are buying houses and especially first-time buyers who we really need to get into the marketplace to make an impact on what happens residentially. Refinance business, it runs in sort of in a tide. And when people can get equity out of the house, yes, they'll refinance their house. And so there's a whole market that's actually generated through the appreciation in real estate property. So we're seeing that. So I don't think it's doom and gloom for the refinance business, but I think we're going to see a much more substantial increase in residential sale business. And then builders are going to do better. I think the lack of building during the recession years and slow recovery in that segment of the business is really going to add to what we're going to be able to generate on the resale side of the business. So I think long run, everything looks really good for the residential side. Commercial, I just read, where they're predicting increases through 2018. So commercial is really solid. And I think residential is going to be a slow growth back to maybe not the levels, of course, that we saw in 2003 through 2005, but certainly better than what we've seen over the past 5, 6, 7 years.

Operator

And 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, sir.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. Well, thank you. Again, we appreciate very much everybody's interest and will look forward to our next visit, which will probably take place after the second quarter results this year and look forward to it.

On that note, you all have a good afternoon. Bye.

Operator
And this does conclude today's presentation. We thank everyone for their participation.