S&P Global
Market Intelligence

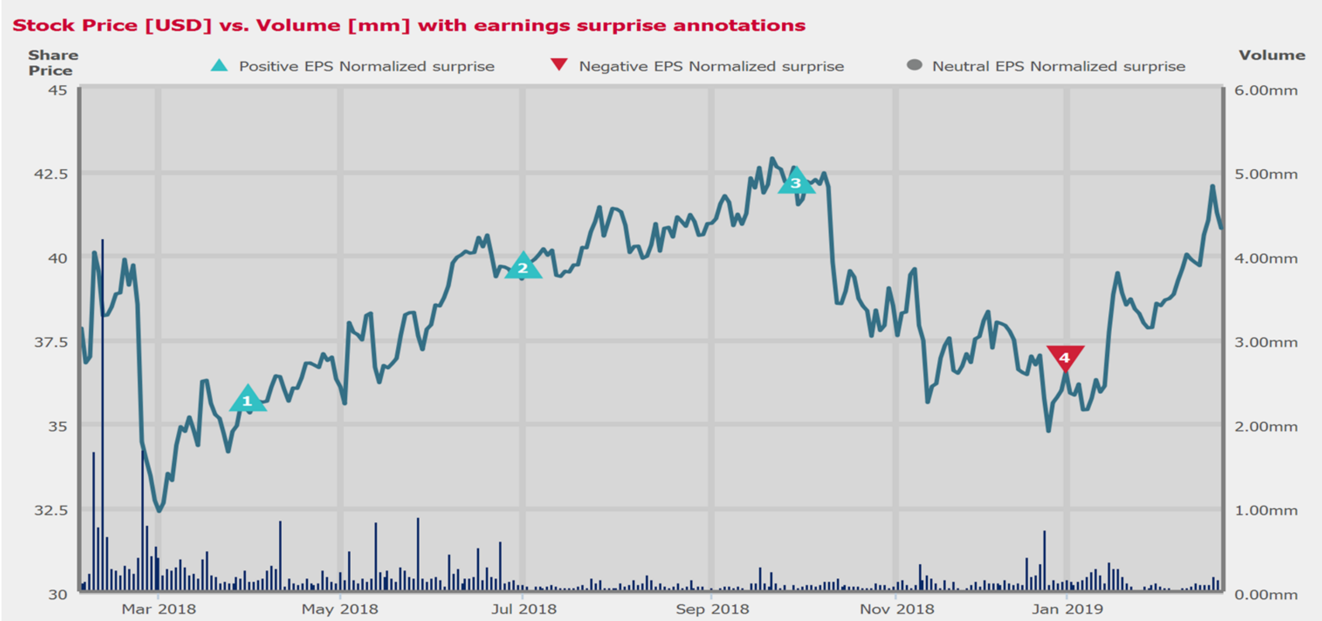
James River Group Holdings, Ltd.
NasdaqGS:JRVR
FQ4 2018 Earnings Call Transcripts

Friday, February 22, 2019 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.66	0.56	▲(15.15 %)	0.66	2.42	2.33
Revenue (mm)	210.60	214.52	▲1.86	208.20	881.57	885.60

Currency: USD
Consensus as of Feb-22-2019 10:01 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.54	0.55	▲1.85 %
FQ2 2018	0.54	0.58	▲7.41 %
FQ3 2018	0.60	0.64	▲6.67 %
FQ4 2018	0.66	0.56	▼(15.15 %)

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EXECUTIVES

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Robert Patrick Myron
President, CEO & Director

Sarah Casey Doran
Chief Financial Officer

ANALYSTS

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Randolph Binner
B. Riley FBR, Inc., Research Division

Seth A. Rosenberg
UBS Investment Bank, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2018 James River Group Holdings, Ltd. Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Kevin Copeland, Head of Investor Relations. Sir, you may begin.

Kevin B. Copeland
SVP Finance & Chief Investment Officer

Thank you, Joelle. Good morning, everyone, and welcome to the James River Group Fourth Quarter 2018 Earnings Conference Call. During the call, we will be making forward-looking statements. These statements are based on current beliefs, intentions, expectations and assumptions that are subject to various risks and uncertainties, which may cause actual results to differ materially.

For a discussion of such risks and uncertainties, please see the cautionary language regarding forward-looking statements in yesterday's earnings release and the Risk Factors section of our most recent Form 10-K, Form 10-Qs and other reports and filings we make with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements.

I will now turn the call over to Bob Myron, President and Chief Executive Officer of James River Group.

Robert Patrick Myron
President, CEO & Director

Good morning, everyone, and thank you for joining our conference call today. This is Bob Myron, and with me are Sarah Doran, our CFO; and Kevin Copeland, our CIO and Head of Investor Relations. Sarah and I will make a few comments to give you some additional color on the quarter and the year, and then we look forward to getting to your questions.

The earnings power of our franchise is already strong and I see it improving in the future. For the full year 2018, we had an outstanding 14.8% operating return on tangible equity, which is the highest our franchise has achieved in the last 12 years, and we achieved this with fourth quarter results that were marginally below our expectations, both with respect to underwriting profits as well as investment income from our private investments. We achieved these results for the year through strong growth and good underwriting by our segment teams, booking conservative accident year loss picks, continued expense management across our group and great capital management.

The last part is something that we haven't commented on a lot in the past, so let me do so now. We have a compelling net written premium to equity ratio along with prudent and efficient capitalization. We manage the company this way on purpose in order to deliver the highest ROTE we can to shareholders, while at the same time meeting the expectations of our rating agency, regulators and policyholders. We also have a compelling dividend yield, which approximates 3%, which outpaces many of our specialty peers and the P&C marketplace as a whole.

While our ROTE is high, it has also been consistent. We've averaged a 13.0% ROTE over the 4 years, which we have been public, and the standard deviation around this result has been low. This is a testament to our high return but low volatility model, where we retain low net limits and have limited property exposure. So this is probably a good place to highlight that we again outperformed the Specialty P&C marketplace with respect to catastrophe losses.

In 2018, our industry had more than $90 billion of insured property losses. And our property losses for the 2018 year are de minimis. It's also worth noting that on a fully developed basis, our catastrophe losses from the 2017 calendar year have turned out to only be about $3 million.

We had another quarter of strong growth. In core E&S, which excludes Commercial Auto, we grew 18%. Submission growth continues to be strong and is increasing, growing 12% relative to the same quarter last year.

In Commercial Auto, we grew 16%, which was due to the growth in our largest account. In our Specialty Admitted segment, we grew 11% on the top line from 34% growth in individual risk workers' compensation and 7% growth in fronting premium. Our fee income in the quarter in the Specialty Admitted segment grew to $3.9 million or 13% from the same quarter a year ago.

Lastly, we have a robust pipeline of potential fronting deals, probably the most we have had in the 60 years that we have been pursuing the strategy as part of the Specialty Admitted segment. While we need to work towards binding many of these deals, I am very encouraged that we can continue to profitably growing in this area of strategic focus.

In Casualty Reinsurance, we grew by $24.7 million in the quarter due to the shift in the renewal date of 1 large contract from the third quarter to the fourth quarter. For the full year, this segment shrunk by 42%, but as many of you know, this has been planned as we have carefully refined the book of business over the last 12 months.

From a combined ratio prospective and underwriting profit perspective, I'll cite a few highlights. In E&S, our combined ratio in the quarter was 93.0% as we continue our strong underwriting results in calendar 2018. In Specialty Admitted, we had an outstanding quarter with a combined ratio of 81%, and for the full year we had a combined ratio of 87.4%, the first time we have been in the 80s for many years. In casualty re, while we did have a 99.9% combined ratio in the quarter, for the year we had a 97.5% combined ratio, which is the best in this segment's history going all the way back to 2008.

Let me talk a bit about reserve adequacy. We are through our year-end reserve studies done by our internal actuaries and our external consulting actuaries. And these studies show that our book reserves are in excess of the actuarial point estimates. We are comfortable that our reserves are in good shape by division, including Commercial Auto, by segment and for the group as a whole. So we entered 2019 with a strong balance sheet. We did have some adverse loss reserve development in the quarter from our largest account, which was again from the same place that has been in the past, the 2016 accident year. We are confident that development from this year is now behind us and that our overall reserves in Commercial Auto are in very good shape as we head into next year.

For Commercial Auto, we renewed our largest account with an effective date of March 1, 2019, and we are appreciative of the continuing -- of continuing the long and collaborative relationship we have had with this insured. We are pleased with the pricing with -- of the renewal, and we continue to work diligently to service this account well across our organization.

From an exposure perspective, renewal consists of about 82% of the mileage that we received in the prior year's contract. However, we expect to have about the same amount of net written premiums from this account in 2019, as we did in 2018, due to changes in geographic mix and coverage in the business that we are writing.

Now to pricing outside of Commercial Auto. In core E&S, renewal rates were up 9.7% in the quarter and 6.5% for the year, which is the highest result we have had in the last 10 years. So the trend on pricing is up, and we are extremely pleased with this, given that core E&S is the largest business in our group. And renewal rate increases don't always capture the pricing power of our business. In the quarter, several new larger accounts were written where our pricing was 3 to 4x what the expiring pricing had been in the admitted market; for example, habitational risks and other commercial auto business, such as food delivery.

In our Specialty Admitted segment, workers' compensation pricing continued to be down, but we continue to see very benign loss activity, so margins remain strong. In casualty re, underlying primary pricing was up 3.2% and pricing on treaties was up 1.5%. So overall, we feel great about pricing across the group, and our insurance margins remain healthy.

With that, let me turn it over to Sarah.

Sarah Casey Doran
Chief Financial Officer

Thanks, Bob, and good morning, everyone. For the fourth quarter of 2018, we made underwriting profits of $7.1 million, generated an operating profit of $17.1 million and our reporting net income of $11.6 million. For the full year, our operating profit of $70.6 million was 49% higher than it was for 2017 and the second highest it has been in our company's history.

Our expense ratio of 21.3% is an improvement of 1.2 points from the third quarter and came in at 23% for the year, the best annual result in our company's history, and a 10-point advantage to our peers' mean results. We believe our annual expense ratio of 23% positions us well for attractive returns.

We continue to enjoy strong cash flow from our businesses as operating cash flow for the full year was $290 million as compared to $208 million last year and $154 million in 2016. Our investment performance has been a key bottom line contributor, as we have grown cash flow and generated above-average returns, in particular from a small subset of assets outside of the core fixed income strategy. This subset consists largely of our renewable energy assets as well as select limited partnerships we've invested in, which have credit and equity attributes. It represents about $72 million of value or less than 5% of our total investment portfolio. Unfortunately, December's market volatility impacted the portfolio this quarter, and to note we did book the portfolio through the full end of the year. We've had a loss in 2 discrete investments, which pushed us off pace from where we've been tracking on net investment income for the year.

This year, we grew tangible equity per share almost 10%, including our common dividend, which currently has it above sector yield of approximately 3%, as Bob noted. Over the course of the quarter, our tangible book value per share grew from $15.95 to $16.34. Complementary to our 12% or better ROTE target, we're focused on growing tangible book value per share. We ended the quarter with tangible shareholders' equity, including our common dividend of $526.1 million, an increase over the $474.5 million at the end of 2017.

Operating leverage or -- trailing 12 months net premiums written to tangible equity was approximately 1.5 to 1.

We continue to see attractive opportunities for organic growth and reinvestment in our business and look forward to continue to put our capital to work at very attractive returns for our shareholders.

And finally, on taxes. Our effective tax rate for the year was 9.9%. While there are many points of impact to our tax rate, we continue to believe that going forward, our tax rate will be similar to historical averages, varying a few points in excess of where it came in on this year.

So with that, let me turn it back to Bob.

Robert Patrick Myron
President, CEO & Director

Thank you, Sarah. Lastly, I would like to thank all of our 750 employees for their hard work in 2018 in producing these strong results. And we look forward to continued strength in 2019.
Operator, that concludes our prepared remarks. Would you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Randy Binner with B. Riley FBR.

Randolph Binner
B. Riley FBR, Inc., Research Division

I have a question on reserves and it has to do with the '17 accident year, where there was still a good amount of growth. Can you outline why there is the level of confidence there versus the 2016 accident year that's had considerable amount of reserve development?

Robert Patrick Myron
President, CEO & Director

Yes, Randy, this is Bob. I think it's the same things that we've talked to -- talked about in the past. A lot of the development in '16 came from UM and UIM-related exposures and a lot of it came from a particular state. And in terms of the '17 renewal, we took rate and underwriting actions, both with -- and underwriting actions in particular with respect to share that significantly mitigated those -- the causes of the development from 2016. So it's really the same thing that we've communicated in the past. And those underwriting actions have borne out well for us.

Randolph Binner
B. Riley FBR, Inc., Research Division

All right. And then just one related question to the Commercial Auto count. In your opening remarks, you said post the renewal of the contract going forward, you expect a similar amount of premium. But did you say specifically that there will be like less miles driven? And did you quantify that?

Robert Patrick Myron
President, CEO & Director

Yes, I said that the mileage driven will be approximately -- the number of miles will be approximately 82% of what we had in the -- have in the expiring contract, which is ending this month.

Randolph Binner
B. Riley FBR, Inc., Research Division

But that's offset by what, like a expanded coverage, is the liability limit higher? Or what would offset that or just price increase?

Robert Patrick Myron
President, CEO & Director

Well, I just go back to -- it's what I said in the prepared remarks, it's really geographic mix as well as the amount of net line, I guess, you would say that we take and that bounced around through the years in terms of the share of the risk that we have. And so it's really from those 2 things.

Operator

And our next question comes from Mark Hughes from SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

When we think about the accident year loss pick for 2019, presumably you've seen good growth in your core business, you're getting better pricing. It seems like your mix is going to shift more in favor of that core E&S in 2019. When we put all that together, should we think current accident year may improve a bit?

Sarah Casey Doran
Chief Financial Officer

You know I think the way that I think about that, Mark, is, we've said consistently through 2018 that we are trying to put a pretty conservative accident year picks. And that's the way that we'll continue to go into 2019 in core. I think we've got a great growth opportunity and strong pricing there. But we want to book high very conservative accident year picks out-of-the-box. So I wouldn't expect to see a big improvement over that versus 2018 right away.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

[the least] the logic of those moving parts that sounds reasonable?

Sarah Casey Doran
Chief Financial Officer

The other pieces of what you are saying is reasonable based on mix, et cetera. But I'm just kind of addressing the accident year loss pick, in particular.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Understood. The -- for reinsurance, your -- I think your outlook perhaps from here for written premium is steady when we think about profitability within that line. Have you culled that to retain the more profitable business? And so you may see some improvement? Or should we sort of stick with the kind of high 90s combined ratio?

Robert Patrick Myron
President, CEO & Director

Yes. So Mark, this is Bob. The team here -- I'll lead with this. The team here has done a really good job of culling the book and reducing it pretty significantly. And one of the focuses there, of course, was to focus on the most profitable accounts since we've been doing this business since 2008. And so I think we are focused on the more profitable business and we're able to retain that. Obviously, with a lower earned premium number, there's a little bit of an offset from a scale perspective, right? But I don't -- so we're not really focused on growing that business from initially. And, as you know, we don't really give specific top line guidance. But so we're basically -- we'd expect that to be plus or minus flat in terms of 2019. And where that business ultimately gets priced in terms of the loss ratio and then the sliding scale commission and then when you layer on brokerage and then overhead expenses and the like, it basically does come up to that high 90s number.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And then one final question. The -- in the Specialty Admitted, your current accident year number popped up into the high 70s, has been running kind of mid, upper 60s, it's a pretty good loss environment, I think as you describe it. Any comment there on why you saw that move up? Does it mean anything for 2019?

Sarah Casey Doran
Chief Financial Officer

I would say it really doesn't, Mark. It's a bit of an artificial impact of how we book loss and loss adjustment expenses in the comp business, in particular, and that's something we're working on addressing through our somewhat formulaic approach there. But we expect to see continued good experience out of that book as we have through 2018.

Operator

And our next question comes from Bijan Moazami with Compass Point Research.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Just wanted to understand it, Uber account a little bit better, in terms of the kind of coverages that you guys are providing starting March 1st as compared to last year. In particular, if your miles driven is down by 18%, does it mean that you're getting 18% rate increase in order to have a flat premium volume growth from that account? And if you're getting 18% rate increase from that account to remain flat, are you providing something that you didn't provide last year?

Robert Patrick Myron
President, CEO & Director

No. Just to be clear, don't make the assumption that's because of rate changes, Bijan. And again, I would go back to what I said in the prepared remarks, it's really driven by geographic mix changes as well as the coverage that we're providing, right? So whether that's different limits or the share of the limits that we're taking is really the thing that's driving that, right? It's not a rate-driven change.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

So...

Robert Patrick Myron
President, CEO & Director

But I would reiterate that we're very happy with the pricing that we're receiving on this renewal.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Just to understand that, that means that you're getting less miles in a low rate state and more miles in a higher rate state?

Robert Patrick Myron
President, CEO & Director

Well, it could be as a result of that as well as what -- we haven't disclosed it before in terms of the share of the risk that we actually take. But through the years, there have been changes in that share of the risk that we actually assume from a liability perspective. And so -- but let me get back to, I think, highest level part of your questions in terms of the coverages that we provide. In terms of the coverage, we are providing physical damage coverage for the drivers as well as liability coverage for the drivers. And the physical damage piece of it is something that we've never taken risk on and we've talked about that before. So we're basically just handling the claims there for a fee for that component of the coverage. And then on the liability side, we -- through the years, we've taken various shares of the liability risk in this contract and that's sort of moved up and down through the years.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Great. Also on the Specialty Admitted business. How big the fronting business can become? And also how is the kind of fees that you can charge this year compared to last year? And finally, how much capital the fronting takes?

Robert Patrick Myron
President, CEO & Director

Yes, that's a great question. So the first thing I would say, which is similar to what we've said in the past is, we've gone from 0 to about $350 million plus or minus of fronting premium here in the last 6 years. However, as Sarah has -- likes to point out, this is lumpy. The deals can -- you can get no new deals signed in a quarter, you could get a couple or 3 new deals signed in a quarter, and a year could be some material number above that as well. And so we have a robust pipeline. I expect that we will continue to grow this fronting business. We would like it to get meaningfully larger than it is. I think we've made good progress, but we do want to continue to grow it because we do see it, as you point out, as it's -- as pretty capital-light. It's really a credit business, where you have to manage your credit risk carefully because of the heavy amount of reinsurance that you're buying and we generally are reinsuring 90% or more of any 1 of these deals. So that's important. The capital charges for the business really come through reinsurance recoverables, whether you look at that from a regulatory or rating agency perspective; whereas if you have a lot of retained risk, 90% of your capital charges are going to come from net written premiums or reserves. So it is meaningfully lighter from a capital perspective. And I would say to your last question around pricing, we are endeavoring to get 4 to 6 points of gross front fee on any 1 of these deals. And that -- those are compelling numbers and it's generally where the market is. And I would say that we're not really looking at stuff that has a gross fee income number that's lower than that. Unless it's a deal that has really large scale or it's a really large transaction, and as we model it, we feel like something less than that could still give us a very compelling return on a risk on allocated -- or return on allocated capital basis and how much it impacts our infrastructure. Obviously, you can spread a larger deal over the organization. Just for example, the number of people needed to administer a large deal might be the same number of people that would be needed to administer a smaller deal, right? But we're generally targeting fees in that level and they are achievable in the marketplace.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

One last item. Are you guys expanding your admitted licenses to be able to do more fee business or fronting business?

Robert Patrick Myron
President, CEO & Director

Yes, I would say that we are always -- we're always looking to expand licensure and filings and having perhaps multiple filings on multiple companies and also are continuing to work on E&S licensure as well in this respect. But we do have 50 states. We have broad licensure across the United States. It's more of a by exception situation where we don't have it than where we do.

Sarah Casey Doran
Chief Financial Officer

We have licensure in almost every state, both on an E&S and admitted perspective right now for that business, Bijan. So we've got full capabilities and looking to take advantage of that.

Operator

And our next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Bob, I just apologize for continuing on the same issue. But should we expect fees within the Excess & Surplus line segment to come down if you're going to be retaining some of the physical damage exposure?

Sarah Casey Doran
Chief Financial Officer

I don't think we said that we were necessarily there, Meyer, on that point. But I would not -- I would expect the fees to continue to decrease, just given the same dynamic that we talked about at the beginning of last year that we are not accounting for the business from a fee perspective as we were in, say, 2016 and even 2017 and it's really a change in accounting. And that impact goes through premium now and not through fees. And there's a bit of a lag in the way that's decreased. But you would continue to expect the fee income in E&S to come down materially over the course of this year and that to be missed -- and that to be represented within the premium income instead.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay, no, that's helpful, [that's surprising]. I was hoping you could comment a little bit on -- I think there's some seasonality in the core E&S rate increases. Really strong last fourth quarter, this fourth quarter a little legger in between. Were this quarter's rate increases a function of the lines of business that are renewing now?

Robert Patrick Myron
President, CEO & Director

Yes. It -- so it definitely can be, Meyer. And I think that -- I'll -- let me lead with this. I mean, we continue to actively seek rate increases on the book of business overall on renewals. And obviously, we feel very good about pricing of new as well. I would say that in terms of where we did get rate increases, it was pretty broad. It was across, I think, 8 of 12 -- or the divisions within Excess & Surplus Lines. It can be lumpy because of certain renewals at certain dates, so to speak. Excess Casualty, for example, had substantial rate increases in the fourth quarter because some of the business that renewed there. But we also got meaningful rate increases in General Casualty and Environmental and several of the other divisions as well. So yes, I think -- but you're hitting on the point, which is why it does -- it did bounce around during the course of the year. Sometimes if you don't have as many renewals in a division that -- where the market is harder, you won't see as much in the way of rate increases on a blended overall basis. Now -- and a perfect example of that is Allied Healthcare. We had some quite a bit of a new and renewal business, so that has a tendency to be Q1 dominated, sort of January, because these have a tendency to be larger accounts. And they're more calendar year oriented in terms of when they renew. And so if you remember, we had a large renewal rate increase there in that division. But throughout the course of the year, there's just been smaller renewal premiums, right? So that sort of weights in less. So I guess, that's a long way of saying yes to your question.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. I guess, it all [learns in any help]. And then final question, again, within Excess & Surplus, outside of the Commercial Auto, was there any favorable or unfavorable reserves elements within core?

Sarah Casey Doran
Chief Financial Officer

No, there was not. We just had the $5.8 million of adverse development from the 2016 accident year in Commercial Auto.

Operator

And our next question comes from Brian Meredith with UBS.

Seth A. Rosenberg
UBS Investment Bank, Research Division

This is Seth Rosenberg, stepping in for Brian. So back to Randy's question, the '16 versus '17 Commercial Auto. Bob, I think you said, so certainly, pricing went up in the state as the year renewed, but you also mentioned underwriting. I'm just trying to understand behaviorally why these 2 years might act different, whether it changes maybe in the terms or policy language, or are you starting to see a benefit from -- do you see more cameras in vehicles these days?

Robert Patrick Myron
President, CEO & Director

Well, I think what we -- just to repeat what we've said in the past, there was an overall rate increase for that entire renewal. And then there was -- we started to do state-specific pricing and then some of the shares were varied by state as well in terms of that year. And Florida being the state that has been the most difficult, so we -- that was priced separately, and there was a separate share that we took there. But then we no longer had Florida for the 2018 renewal, that's an important thing to mention as well.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Okay. Understood. But in terms of the terms and how the policy is structured, what -- the limits that didn't change between the 2 years.

Robert Patrick Myron
President, CEO & Director

Well, it does because of the share that we take, I guess, in terms of our net limit that we're retaining.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Okay, understood. That's helpful. And then maybe broader picture on Commercial Auto. A number of companies had adverse development this quarter. You hear some talk in the marketplace that maybe it's impacting more the trucking and heavy equipment-type vehicle because there's more attorney involvement, attorneys going after where they see higher limit. Are you guys seeing any of that in your book?

Robert Patrick Myron
President, CEO & Director

Yes, I wouldn't say that we really are. It's -- I think that this is -- this account in this business is reasonably [Technical Difficulty]

Operator

[Operator Instructions]

Robert Patrick Myron
President, CEO & Director

It's Bob Myron. I'm sorry, we lost phone connectivity there, but we're dialed back in.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Sure. So I think you were saying you haven't seen a real impact from attorney involvement?

Operator

Speakers, you may begin.

[Technical Difficulty]

Robert Patrick Myron
President, CEO & Director

This is Bob Myron. Okay. I'm sorry about that. We're sitting in Bermuda, and we're having some technical difficulties here. So we've dialed back in on a cellphone. So would you mind repeating the question?

Seth A. Rosenberg
UBS Investment Bank, Research Division

Sure. So just kind of broad picture. You heard a number of companies this quarter talking about, well, seeing some reserve charges and higher loss ticks on Commercial Auto. Some companies have spoken about more attorney involvement, particularly focused on more the trucking space, where lawyers can target higher limit. So just curious in your book and the dynamics you have, do you see any of that?

Robert Patrick Myron
President, CEO & Director

Yes, I wouldn't say that we necessarily do. I think this book is reasonably different than more traditional taxi cab or trucking-related commercial auto accounts. I don't really think that it's necessarily being driven by the same things that you're hearing from other people. I think it's really just where the contracting time was priced and losses and exposure coming out of uninsured and uninsured motorists. And so we took some meaningful corrective actions on that in 2017 and then again in 2018. And so I think that's really the story here.

Seth A. Rosenberg
UBS Investment Bank, Research Division

Okay, great. And then one last one shifting gears. So no special dividend. I know you guys have previously spoken about sort of the deploy versus return strategy. Am I thinking about the right way that sort of the 12% ROTE that you're targeting this year, is that sort of the right threshold to think about in terms of how you're thinking about deploying capital versus returning it?

Sarah Casey Doran
Chief Financial Officer

I think -- this is Sarah Doran. I think what we're -- our guidance is 12% or better return on tangible equity, just to highlight that for a second. And we pay an above average, as we've kind of commented on in the call, ordinary common dividend at that 3% level. We feel like that is a very effective capital management strategy for us. And I think what we said consistently through 2018 is we had great opportunities to put our capital to work, given this rate environment what we're seeing, especially in core E&S and in other places. We'd like to continue to do that rather than focus on the special dividend, especially if we're already -- we feel like we're effectively and efficiently managing capital through the ordinary.

Robert Patrick Myron
President, CEO & Director

And I just want to make one other point clear too is that we are -- when we had normally declared the dividend, was a special dividend would have been in when we released our third quarter results. That wasn't done...

Sarah Casey Doran
Chief Financial Officer

Yes, that's a good point, just a quarter ago, yes. We don't do that in the fourth quarter.

Operator

[Operator Instructions] Our next question will be from Mark Hughes with SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

My questions are answered.

Sarah Casey Doran
Chief Financial Officer

Okay, great.

Robert Patrick Myron
President, CEO & Director

All right. Thank you, everyone, for joining our conference call today. We appreciate your participation. Apologies for the technical difficulties, and we look forward to talking to you in early May. Thank you.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a great day.