Old Republic International Corporation

NYSE:ORI

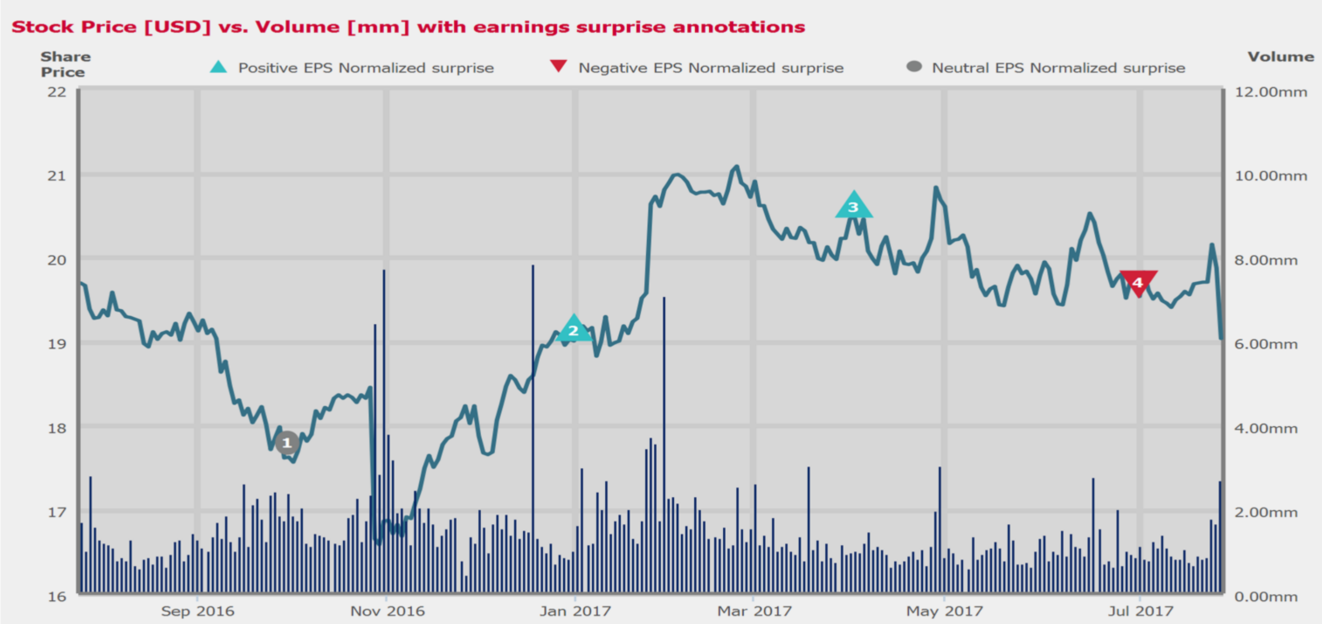
FQ3 2017 Earnings Call Transcripts

Thursday, October 26, 2017 7:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	0.09	-	0.38	1.12	1.58
Revenue (mm)	1520.00	1593.00	4.80	1489.00	5952.00	5921.00

Currency: USD
Consensus as of Oct-18-2017 2:29 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.37	0.37	0.00 %
FQ4 2016	0.31	0.43	38.71 %
FQ1 2017	0.32	0.36	12.50 %
FQ2 2017	0.36	0.34	(5.56 %)

COPYRIGHT © 2017, S&P CAPITAL IQ, A PART OF MCGRAW HILL FINANCIAL.

Call Participants

EXECUTIVES

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Marilynn Meek

R. Scott Rager
President and Chief Operating Officer

Rande K. Yeager
Chief Executive Officer and President

ANALYSTS

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

Gary Kent Ransom
Dowling & Partners Securities, LLC

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Good day, and welcome to the Old Republic International Third Quarter 2017 Earnings Conference Call. [Operator Instructions] I would like to remind everyone, 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

Thank you, Derek. Good afternoon, everyone, and thank you for joining us for the Old Republic conference call to discuss third quarter 2017 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 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 supplement dated October 26, 2017. Risks associated with these statements can be found in the company's latest SEC filings.

This afternoon's conference call will be led by Al Zucaro, Chairman and CEO of Old Republic International Corporation; and several other persons 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 and Chief Executive Officer

Okay. Thank you, Marilynn. And so depending on where everyone is located listening to this call, we also bid you good morning or good afternoon or good evening.

Today, we decided to deviate from our adopted twice-a-year post-earnings conference call schedule. And we're obviously doing this because of the significant charges we had previously announced, which obviously makes this latest quarter's results stand out from the norm for us.

For this visit, as Marilynn just said, we've assembled 3 other senior executives to take part in the call. And in addition to myself, we have Old Republic's President, Scott Rager, and he will cover our General Insurance business segment in the place of Craig Smiddy, who usually does this. And Craig is away from the office, so we're calling on Scott to fill in with an important discussion point. Rande Yeager, who's the CEO of our Title Insurance business, and he'll cover that segment. And Karl Mueller, our CFO, who will comment, as he usually does, on the more important elements of our financial picture.

So as we go over this morning's release, we'll be assuming that everyone, as has just been indicated, has access to the earnings release that we put out this morning as well as the financial supplement that we post each quarter with the Old Republic website.

So looking at the picture currently, in a nutshell, each of the 4 parts of our business, we think, operated pretty much as we expected for the normal scheme of things. The difference, of course, in the latest quarter and year-to-date period, as we've just said, relates to a confluence, you might say, of events and changes or final quantification of various estimates for certain known claim and claim expense exposures we've had, all of which bore significantly through this year's results. And as we've written in several parts of the news release and as you've seen, we took a pretax charge of $150 million in the quarter just ended. Of that number, $130 million apply to the RFIG run-off business and the remainder of $20 million was a charge to our General Insurance segment.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

So with that as a background, we'll now embroider and add a little more color, if you will, to this picture. And therefore, without much more ado, we'll turn the visit here to Scott Rager, who will discuss our General Insurance business. Go ahead.

R. Scott Rager
President and Chief Operating Officer

Well, as the release indicates, the General Insurance group reflected increases in net premiums earned in the third quarter of 9.5% year-over-year and year-to-date of 5.5% compared to the same periods of 2016. We experienced increased writings in most lines of coverage, especially in commercial auto, where rate increases continue to earn through. Workers' compensation writings were up minimally for the quarter, but remained down year-to-date, as rate increases have become increasingly more difficult to achieve in that line.

Strong retention ratios continue on our renewal business. We are producing new business pretty much across the board, most notably in our newest underwriting operation announced in 2015 and in our trucking segment. As is always the case, all of our underwriting operations are functioning in a very competitive insurance market, largely driven by a perception of excess capital among all players, large and small. But we think that we're more than holding our own and not following bad competition.

The General Insurance group's overall composite ratio ticked up 0.5 percentage point to 100.6% in the third quarter compared to 100.1% for the second quarter. Year-to-date, the composite ratio is up 1 point compared to last year at 98.9% versus 97.7%. At this stage, we think that's reasonably good result for the quarter and year-to-date period. This is particularly so, given the impact of the recent hurricane-related losses, which added 2.5% and 0.9 percentage points to the claim and composite ratios for the third quarter and 9 months of this year.

The group's expense ratio of 24.6% for the third quarter was stable as contrasted to the same quarter last year. Year-to-date, this ratio rests at the same basic level and compares to 2.9% posted last year. We might note that these ratios are in line with the past 10 years' average and our long-term expectation.

As shown on the financial supplement we've posted on our website, the commercial automobile claim ratio is 81.5% this quarter compared to 81.7% last year. In a similar vein, the ratio for the year-to-date came in at 81.3% this year compared to 80.2% last year. The increase is due to visible damage claims, most likely hurricane-related, as the liability ratios edged down a little bit year-over-year, both quarter-to-quarter and year-to-date. We continue to believe that rate increases we've obtained in the commercial automobile coverage will further offset the loss cost trends we've seen experienced in the more recent years. And our objective, of course, remains to bring claim ratios down to our historically experienced levels in the low to mid-70s.

The third quarter workers' compensation claim ratio rose to 75.4%. This was up from 73.3% in the same quarter last year, but down from second quarter of 77.4%. Year-to-date, it is at -- excuse me, 76.1% compared to 74.7% through 3 quarters of 2016. Over time, we believe this ratio should stabilize within the range of about 75% annually.

Our general liability writings are much lower than workers' compensation or commercial auto, and as such, we can experience a greater volatility in the underwriting results for this coverage. As shown on the financial supplement, our results in the latest quarter reflect a claim ratio of 67% compared to 80.2% in the third quarter last year. Likewise, year-to-date results reflect a lower claim ratio of 66.3% compared to 76.8% in 2016. Other than the hurricane-related impact on our aviation and guaranteed asset protection books, the remaining coverage performed within expectations.

As we have reported on prior occasions, all of the claim ratios we post are inclusive of any favorable or unfavorable claim development. Unlike 2016, we experienced a small level of adverse development in 2017, but continue to believe that the reserving judgments exercised in recent years should restore a greater long-term stability to the claim reserve base.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

So to summarize, all of our operating units remain focused on our underwriting discipline. Given our current mix of business, we believe that a 95% composite for the entirety of our insurance -- excuse me, General Insurance business remains a realistically achievable objective.

On that note, I'll turn the discussion over to Rande Yeager, who leads our fast and growing Title business.

Rande K. Yeager
Chief Executive Officer and President

Thanks, Scott. And as always, I'm happy to talk about the Old Republic Title group.

As we've shown in the news release, the group reported pretax income of $67.3 million for the quarter compared to $58.5 million in last year's third quarter. It was an increase of 15%. Included in the current quarter's results is recognition of the continuing favorable claims development for prior policy years. For the 9 months, the results were up by 38.7%. And similarly, we're affected by prior years' favorable claims developments, as we point out in the release.

The third quarter premium and fee revenue was up 1.4% compared to the prior year's comparative quarter. The increase is attributable to continued favorable mortgage rate environment that really has enabled ongoing robust business volume for both purchases and the refinance market over the past several quarters. The latest quarter revenues and profits were, no doubt, impacted by hurricanes in Texas and Florida. It's difficult to put an extent on the number and the effect, but production basically stopped for more than 2 weeks in Houston with the weather there and more than a week in most of Florida. We expect these operations to recover gradually and to get back to full strength in the fourth quarter.

Other than the impact of those natural disasters and catastrophes, business was relatively good. Our agency premiums were up about 3.8%, while direct premiums and fees lagged about 4.5% as the hurricanes really have an immediate and stronger impact on our direct operation. Our national market share remains stable at 14.7% in the first half of this year and compares to 14.6% in the same period of 2016. And finally, at this juncture, we think that 2017 revenues and profits will continue at a record pace for the rest of 2017. We're optimistic about both the near-term prospects as well as the future of the operating success of the core business of ORI's family.

And with this note, I will turn the discussion back over to you, Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So let me talk a bit about the RFIG run-off business. As the release shows, with the exception of the latest additional claim provision in this third quarter this year, the mortgage insurance portion of this segment continues very much to tread along the run-off model that we've observed since 2011 when we first moved the business to a run-off operating mode.

And in planning the course of this MI business, we continue to anticipate a fairly decent housing and mortgage banking market, just as Rande noted for the Title discussion. We very much think that this business is likely to run off positively until the policies in force currently drop out of the inventory for -- by 2022 or thereabouts, we think. But between now and then, we're certain that we'll figure out the most appropriate way for enacting a best long-term outcome for all the key stakeholders that we consider to be most valuable and very viable for this operating franchise in our mortgage guaranty business.

As a final commentary on mortgage insurance, let me say that the third quarter's $23 million claim cost charge, which was allocated to it that as we've written in the release, it represents our best current estimates of probable and determinable final costs to at once bring to an end soon relatively small litigation exposures we have and to also book certain recently established costs pertaining to claims that were settled and that previously, a number of years ago, and that hark back to The Great Recession years. So with this charge, we think that the MI business is going to assume a very normal run-off mode until, as I say, 2022 or thereabouts.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Now the consumer credit indemnity or the CCI portion of the run-off book, as we call it, also continues to perform as anticipated. And that, of course, has been truly in a very volatile mode, given the very small size of its operating platform. And you might say most critically, the relatively large part that the costs and burdens of litigation have placed in now what has been a near decade-long plod in search of finality in the run-off of this business. And the volatility of posted results was, of course, greatly exacerbated in the latest quarter by posting the $107 million net claim provision that you see in the news release.

The amount in excess of the amounts previously spent and that we had placed in reserves obviously covers the additional cost that are attributable to a recently settled claim litigation as well as to a current update of estimates for remaining a much lesser litigation exposures that we have.

So in the final analysis, when we look at the RFIG CCI portion of the business, to borrow a title from a dark play of the theater, we think that this numerical recognition of finality ends a Long Day's Journey into Night. So looking forward, we think that we're bound to see a lot less volatility, much more stability, as both of these portions of the RFIG business run their course.

So with this, I'll turn to Karl Mueller for comments on the continued soundness of our enterprise.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Okay. As usual, I'll focus my comments on a few key elements of Old Republic's financial situation. Overall, I'd say the composition and strength of the Old Republic balance sheet remains largely unchanged as of September 30 by comparison to last year and as well as earlier 2017 periods.

On a year-to-date basis, positive consolidated operating cash flows increased to $522 million, and that's up from $402 million in last year's first 9 months. The positive cash flows were additive to the cash and invested asset balance, which grew by approximately $404 million, and that's on a cost basis, for the first 9 months of this year. This addition was amplified by $162 million increase in the portfolio's unrealized market appreciation.

The composition and characteristics of the portfolio remain consistent with earlier periods during this year. Fixed maturity and short-term investments comprised approximately 76% of the total investment portfolio. The fixed maturity portfolio retains its overall A quality rating with an average maturity of slightly less than 5 years. Equity securities make up the remaining 24% of the total portfolio, which is pretty much on par with year-end 2016.

With respect to our allocation to equity securities, the investment strategy remains focused on high-quality dividend-yielding stocks. At September 30 of this year, the equity portfolio consists primarily of a diversified pool of individual equity securities representing blue-chip companies and utilities. We continually monitor balance sheet risk and manage the equity portfolio to within internally developed risk tolerance levels.

On a year-to-date basis, you can see that net investment income grew by 6.5%, which is mostly attributable to the rising investment balances in a relatively stable yield environment.

Claim reserves on a consolidated basis experienced favorable development during the first 9 months of this year as well as the third quarter on its own.

This morning's financial supplement shows, on Pages 4 and 5, the effect of prior year favorable or unfavorable claim reserve development on the reported claims ratios.

As Scott mentioned earlier, the General Insurance group continued to experience modest unfavorable development for both 2017 periods. On a year-to-date basis, the development remains concentrated in the commercial auto, in other words, our long-haul trucking business; general liability and workers' compensation insurance coverages. We continue to be optimistic that the unfavorable development will moderate, but we do acknowledge that the results may remain somewhat volatile on a shorter-term quarterly basis.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The Title group again recognized favorable development of prior year claim reserves, due primarily to a continuation of favorable loss development trends on the backside of The Great Recession years.

We also draw your attention to Page 5 of the financial supplement to the line titled Reserves to Paid Losses Ratio. This ratio is a measure -- this ratio measures the carried reserves in relationship to the average paid claim totals for the past 5 years. This ratio is a key measure of a title insurer's ability to meet its obligations to policyholders. The ratio of 9.5:1 at September 30 remains unchanged from year-end 2016 and is a clear indication of this segment's strong reserve position.

As seen in the financial supplement and disclosed in this morning's release, claim reserves in the mortgage insurance portion of the RFIG run-off business also extended favorable claim developments during both 2017 periods.

Old Republic's book value per share at September 30 increased $18.09 or by about 5.2% since the beginning of the year. We've again summarized the main elements of the growth in the book value on page -- supplement on Page 7 of the release. And finally, the capitalization ratios shown in the table on Page 7 are virtually unchanged from those reported at the end of 2016.

So those are my comments, and I'll turn it back to Al.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Okay. So we think we're in tiptop shape here. System-wide, as we've said in the last few minutes, our focus remains on our core underwriting and related services discipline, and that remains unaltered.

As Page 5 of the release shows, the composite consolidated ratio of claims and expenses to all of our premiums and fees continues well within the range of the 95% if we eliminate, of course, the $150 million hit we took in this past quarter. We think that this 95% level is reasonably good in the context of the underwriting and overall economic cycles, in which the totality of our generally long-term business is operating. We also think it's especially so in context of the positive operating cash flows that Karl just alluded to that the totality of our small business is throwing off.

As the earnings release shows on Page 5 again and as you can see in the operating cash flow ex the RFIG run-off was up about 22.5%, that's right, to almost $600 million in the first 9 months of this year. And we think that this points to a very good operating liquidity on the one hand, which as Karl just said, of course, benefits both the investable funds management of our business as well as our ability to upstream dividends to the holding company for the payment of both shareholders' dividends as well as to honor our debt-carrying costs.

Additionally, we also, as we indicated, have very ample liquidity in our nonregulated parts of the consolidated business so that we can take care of the possible cash costs from both capitalization standpoints as well as any capital support needs or commitments we currently have through the various operating subsidiaries in our system. Overall, we continue to think and believe that the North American economy, in which we're focused, is very likely to remain in a slow mode of growth for the foreseeable future. And we, therefore, think that our services, in some of its more important industry sectors, should enable us to grow the consolidated business at a faster clip than the economy at large.

So when all is said and done, we're able to manage the business on the strength, as Karl mentioned, again, of a very strong balance sheet. And this, of course, enables us and will continue to enable us to consistently compete on a level playing field with all comers in our areas of underwriting and related services expertise.

With all that, in conclusion, we think we're in a very good shape to drive our business to greater success going forward and uninhibited by the remnants of The Great Recession issues we've had to deal with during the last decade. So the clouds, as I like to stay, have parted over our great Old Republic. And looking ahead, we're going to once again produce very good results for all of -- for the interest of all of our key stakeholders.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

So on that note, as was indicated before at the beginning of this meeting, I will turn it now to any questions that anyone may have. There's 35 minutes.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] And your first question comes from Greg Peters with Raymond James.

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

Just a couple of questions. And then -- so I don't hog the Q&A spotlight, I'll requeue with some follow-ups if required. On the General Insurance business, I was particularly struck by the growth in the commercial auto earned premium, as illustrated on Page 4 of your supplement. It looks like it was up almost 13% in the third quarter and an acceleration from the year-to-date result, which is almost up a full 9 points. And Scott, I was wondering if you could provide some color on what's going on in there. Is it all price, is it price and units? Provide some additional perspectives, please.

R. Scott Rager
President and Chief Operating Officer

I would say, in general, Greg, it's probably half pricing, but there is new business and then organic growth within the customers that we have at present leading to it.

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

So Scott, when I think about the outlook for that business, is it -- is the 9% year-to-date sort of what is the normalized run rate for the next several quarters? Or do you anticipate that it's going to gradually slow down to something more mid-single digit?

R. Scott Rager
President and Chief Operating Officer

It's been eking up, as you know, over the last couple of quarters, but I would anticipate that it would slow down somewhat and get back to a norm in that mid-single-digit range. But for the foreseeable future, it has been trending up, as you've indicated.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

And another thing that's happening, Scott, as you know, and Greg, is that some of the competitors are in and out of the market. And for the last year or so, we have benefited to some degree in terms of getting greater market share from some of that.

R. Scott Rager
President and Chief Operating Officer

Yes, we have accumulated -- as I indicated, we have to look at new business. When people exit the market or they, shall we say, they refine -- you want me to wait, so you don't to listen to our fire engine going by?

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

If you want to wait for 15 seconds, that would be great.

R. Scott Rager
President and Chief Operating Officer

So we don't write fire engines, right?

Aldo Charles Zucaro

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Chairman and Chief Executive Officer

They're just the firefighters that are just coming back from lunch.

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

It seems to be a regular occurrence in your afternoon conference calls.

R. Scott Rager
President and Chief Operating Officer

It definitely does. So where were we? You were asking if -- about that competition. Sometimes the competitors will totally leave this space, as you know. Commercial auto has not been a kind coverage to the industry in general over the last 3 years. And secondly, we see situations where some of the people in the competing markets will, shall we say, refine or better define the marketplace in which they want to serve, whether it be geographically or by size or by type, whatever the case might be. And when that happens, then we get to see more opportunities. And that's been happening over the last -- I would say, through the last 9 months.

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

Okay. I know Karl and you, Scott, addressed this in your comments. But it's kind of surprising, so I thought I'd follow it up for some clarity, and that's the prior year reserve development. I would have expected that, that number would have gradually been diminished. And yet, this year, it seems to be going in the opposite direction. And I know both of you already commented on it. Can you provide some color? Is this just cases, individual cases? Or is this just an actuary opinion of the IBNR? Or just some additional color behind that would be helpful.

Karl W. Mueller
Chief Financial Officer and Senior Vice President

Well, I think what I was trying to say in my commentary is that we're seeing some volatility from quarter-to-quarter, perhaps more so than we would have expected. And a lot of it is from newly reported claims and new information on existing claims that was not contemplated when setting case reserves in the first place. And it's just a culmination of a lot of factors that continue to nip us when settling these cases. And we're not seeing any stability right now in the magnitude of the prior year development. It's not particularly significant, but it is a nagging condition.

R. Scott Rager
President and Chief Operating Officer

I would add to that, and I think you, in your question, alluded to that, Greg, that part of it is not just -- right, Karl? It's not just cases or IBNR, but it has to do also with the formula of reserves that drive allocated loss adjustment expense or unallocated loss adjustment expenses. And there we're being reactive quarter-to-quarter. If you were to plot, which we haven't done around here for a while, but if you were to plot the quarterly ins and outs of reserve redundancy or unfavorable development, you would see that they bounce around without any kind of pattern quarter-to-quarter. Sometimes, we'll have more of an effect in the fourth quarter. Other times, you'll have more of an effect at midyear or now as we speak. So it bobs and weaves. And the thing to remember is that we're very conscious of it. We think that case reserving is getting better, and -- but we'll never be satisfied until this darn thing turns to more of its historical pattern of developing an element of favorable development as opposed to negative development. That's a long-winded answer, my way of adding a little bit of color to what's happening to the business.

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

But it is appreciated. I wanted to get my obligatory question in to Rande on the Title business. And Karl, I think you hit the nail on the head. I was noticing in the supplement that reserves to paid loss ratio going

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

up. And really for the last several years, it's gone up quite considerably. So Rande, favorable development in the third quarter this year. Your reserves to paid losses at what looks to be all-time historical highs. Is it conceivable to anticipate that we're going to see a trend of favorable prior period reserve development looking ahead?

Rande K. Yeager
Chief Executive Officer and President

We certainly think so. It seems to be more than a trend now. And I think we've discussed it before, but I'm -- I've commented on practices within the lending industry, technology advances, just the overall atmosphere and environment for doing business, mortgage originations, specifically fraud detection, things like those, the risk just being less. So where we were 10 years ago and where we are today are just completely different worlds. So my best guess, Greg, and they are guesses, but educated guesses, are that this is going to continue.

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

Yes. Well, it looks pretty strong. How was the commercial side of the business in the third quarter?

Rande K. Yeager
Chief Executive Officer and President

The market itself is flat or a little bit off, and it really hasn't affected us. And I think it's a matter of the growing acceptance of our company in that market as a major player, and it's worked out well for us. I mean, it's continual. I mean, we knock on wood all the time, but things just seem to get better and better and better.

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

Yes, yes, yes. Al, I have to say, since your preview press release and then this release, some of the questions around the charges in the run-off business, investors seem to be, and I'm certainly in the same camp, trying to put a box around this. And -- because you've introduced some new smaller cases. But just to clarify, the $107 million cost, that also includes the -- your perceived settlement cost for the outstanding litigation with Bank of America, is that correct?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, we can say categorically that, that has been settled. It's a matter of public record. What we cannot speak to is the terms and the conditions of it all, right, as I'm sure you can understand. But that certainly -- that case was the big megillah in our situation and it's gone now. And we think we've put our arms around, as I tried to say before, any remaining residual issues, small cases that we have here and there. We think we've really got our arms -- we would be very surprised if we have this kind of discussion again of blaming a poor quarter or a poor year on the sins of the past. I think it's over.

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

Yes, well, that's -- thanks for clearing that up. As just a follow-on to that, as we think about the RFIG results over the last several years, every year, it seems like a portion of the results is included, litigation expense. Maybe that's flowed through the expense ratio or maybe it's a combination of the claim and the expense ratio. But considering that most of this, if not all, has been settled out and closed, does that mean that on an apples-to-apples basis or an apples-to-oranges basis, we're going to see improvement in the claim and expense ratio because of the absence of these charges?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Well, particularly with respect to the CCI portion, that's been really loaded up with litigation costs, both from an indemnity cost standpoint as well as the unallocated loss adjustment expense, legal fee standpoint. And again, what I'm trying to say, we think that it's a culmination of $130 million that we've brought on to the RFIG book, mostly for the CCI portion. That's going to do the trick. A big chunk of that is settled case. And that case is settled and the other cases are well on their way to being settlement. A couple of them are nuisance cases. We think we've got it out. I know a lot of you -- so that with respect to our mortgage guaranty business, that should work itself out very nicely, and you should be seeing a very gradual downturn in the top line, the earned premium line, that will be accompanied by a downturn in the net investment income line as we pay off claims and so forth in the normal fashion. Obviously, that makes a dent into the invested asset base, and therefore, investment income continues on a downward leg. But nonetheless, we just assume, unless something terrible happens to the housing and mortgage lending industry, that, that thing is going to play out in a positive way, though in a down slope. Okay? RFIG, that's such a tiny business right now and you can see that in the premium line. And then as you settle claims and terminate relationships, that accelerates the downturn in the top line. But as long as you have eliminated, as we think we have, the effect or the impact of the albatross that's been around the neck of that business, that should just remove the little gnat on the RFIG business. It -- we don't expect it to cause any significant surprise anymore.

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

Yes. That's excellent color, Al. I really appreciate you deviating from your normal practice and doing a conference call.

Operator

[Operator Instructions] Our next question comes from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I also had a question on the settlement charges, particularly with Bank of America. I just want to understand whether this involved a payment to them for all these old claims that you were still bickering over? Or -- and then does it still include claims in the future? Are you still ensuring mortgages or consumer credit that was underwritten by them that you may have to settle in the future?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, as we've tried to say: one, we can say categorically that our legal dispute with Bank of America-Countrywide has been settled. And your -- the points in your question go to the terms of that settlement. And those terms cannot be disclosed because of the agreement we have with Bank of America and that it has with us. So unfortunately, we need to leave it there. And with -- you just need to accept the fact that we think that the amounts of monies that we have logged on to the income statement and balance sheet now at the end of the third quarter are, in our best judgment, sufficient to resolve all litigation and similar issues that we have been dealing with through September of this year.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Let me just ask it a different way. It is -- is what you did with Bank of America-Countrywide, is that useful in terms of figuring out ways to settle the smaller residual litigation that's out there?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Well, we have set up sufficient funds, as I said, to put away all of those litigations or disputes or commercial disputes we have with any and all types of claimants in both our mortgage guaranty and CCI business.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. That -- yes, I'll leave it there. Just changing subjects for a minute. The catastrophes in the quarter, I -- when I look at the loss ratios, it wasn't entirely clear to me which lines they came, whether it was the physical damage on trucks or some other property exposures, because I don't think of you as having a lot of property exposure. But what -- where did that come from primarily?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

You're correct, we don't have much property exposures, but we do have collateral types of exposures. And Scott, why don't you...

R. Scott Rager
President and Chief Operating Officer

Yes, property in the sense of sticks is not something that we deal with, no. The losses to a large extent emanated from a financial indemnity product referred to as GAP coverage.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay, I understand that.

R. Scott Rager
President and Chief Operating Officer

All right. And that as you know, protects the value of an automobile in the event there's a loss and the residual value of a vehicle is less than the financed value. And other than that, though -- and in addition to those losses, there was damage to trucks, trailers, some hull damage to aircraft and inland marine coverages for cargo or equipment and the like. But the loss was spread pretty much across all entities, and there was no one concentration that caused us an issue.

Gary Kent Ransom
Dowling & Partners Securities, LLC

And it sounds like it came mostly from Harvey then, with the flooding that was there.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Yes, mostly from there.

R. Scott Rager
President and Chief Operating Officer

That's right.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

A little bit in Florida. But again, I think the way I would categorize it with respect to the nonfinancial indemnity type of loss that Scott just spoke to is it's just a run-of-the-mill stuff, trucks that got waylaid someplace and cargo that did not move on time, equipment that should have been put on the lift and so forth and so on. That's the type of thing, an accumulation of all those nits and gnats aggregating to $20 million. We think we've been conservative in making that estimate. So again, that's another situation where we don't expect the remnants of that to kick us in the butt or the posterior.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. I just also want to follow up a little bit on the reserve question. The adverse development, is that coming from more recent accident years primarily?

Karl W. Mueller
Chief Financial Officer and Senior Vice President

I don't know that there's necessarily a concentration. I would say it's spread over a multitude of years.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

But I think we can say, right, Karl, that it's now primarily 2010 and prior years, right? The post-recession years seem to be working out just fine, but it was particularly the recession years, 2005, '06, '07, '08, '09, '10, et cetera. Those are the ones that still give us, as they say in New York, a certain level of high chiller.

Gary Kent Ransom
Dowling & Partners Securities, LLC

One last question. This goes back to something you were talking about maybe a few years ago about your workers' comp business restructuring policies so that they have more self-insurance components or they're somehow sensitive to the loss exposure. You haven't talked about that for a while. But I just wondered where that stood or if that's still an effort you're undertaking at this point?

Aldo Charles Zucaro
Chairman and Chief Executive Officer

It is, and we've felt like over time and we still believe strongly that when an insured shares to some degree, whether it be by retro, dividend, the self-insured [stuff-to-roll] captives, whatever the case may be, but when they're sharing the risk, those results tend to be more favorable than on a rate-sensitive product. And yes, we have over -- we continue to move that book. It's about -- as I recall, just looking the other day, it was about 55%. And we continue to move it up, it creeps, obviously, when you have a book the size that we do. It creeps ever so slowly, but it's been moving over time. Maybe when I first came here in Chicago, it was like 45%, and now it's gone in 10 years, up 10 points or more. And every quarter, we tend to see more. So...

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. So that should still, at least over time, help out with the -- some of the loss ratios in workers' comp that we were looking at, even though we're seeing some improvement already? But -- and maybe some of it is attributable to that, but that sounds good.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

That's correct. It takes about -- particularly with comp, from start to finish on the size book, it takes about 7 years to turn it around from a book of business that's primarily oriented to a ground-up type of exposure for the insurance company to one where that exposure, as Scott just said, gets more accentuated into a partnership type of exposure with the insurers. We have one book of business, just to put a little bit of color, on which we are -- 7 or 8 years ago, we had something like $450 million of that book. And maybe 20%, 25%, 30%, I guess, was risk management type of stuff and the rest was ground-up. And now, the ground-up portion is no more than 20% of that book.

R. Scott Rager
President and Chief Operating Officer

So it's been a total turnaround [indiscernible] allocation of the book.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

But again, it takes time for these changes to take place. And I think we're finally getting to the point where next year, it's not -- or a quarter in the following year, 2018, 2019 starts seeing much more improved results in comp. Now not to throw cold water on that. The truth is that comp is a difficult line, as you know, right? Because once you fix rate, then something else happens. And typically, in the case of comp, the medical portion of claims has been really trying to get our arms around it, both as a company and as well as an industry, has been a challenge for a number of years. And we keep slogging away and taking 2 steps forward and 1 step back. But ultimately, we're going forward.

Operator

[Operator Instructions] And that does conclude today's call. I'd like to turn the conference back over to Mr. Al Zucaro at this time if you have any additional or closing remarks. Thank you.

Aldo Charles Zucaro
Chairman and Chief Executive Officer

No, I think we've said our piece for the day, and we appreciate the questions that were raised by Greg Peters and Gary Ransom. We appreciate the interest, and we look forward to visiting with you all again. I guess, it's in January of 2018 at the end of -- when we publish our fourth quarter and full year results. And as I say, we look forward to that next visit. So in the meantime, you all have a good day, good afternoon, and bid you farewell.

Operator
And once again, that does conclude today's call. We thank you for your participation. You may now disconnect.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2017 Capital IQ, Inc.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.