S&P Capital IQ

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RLI Corp. NYSE:RLI

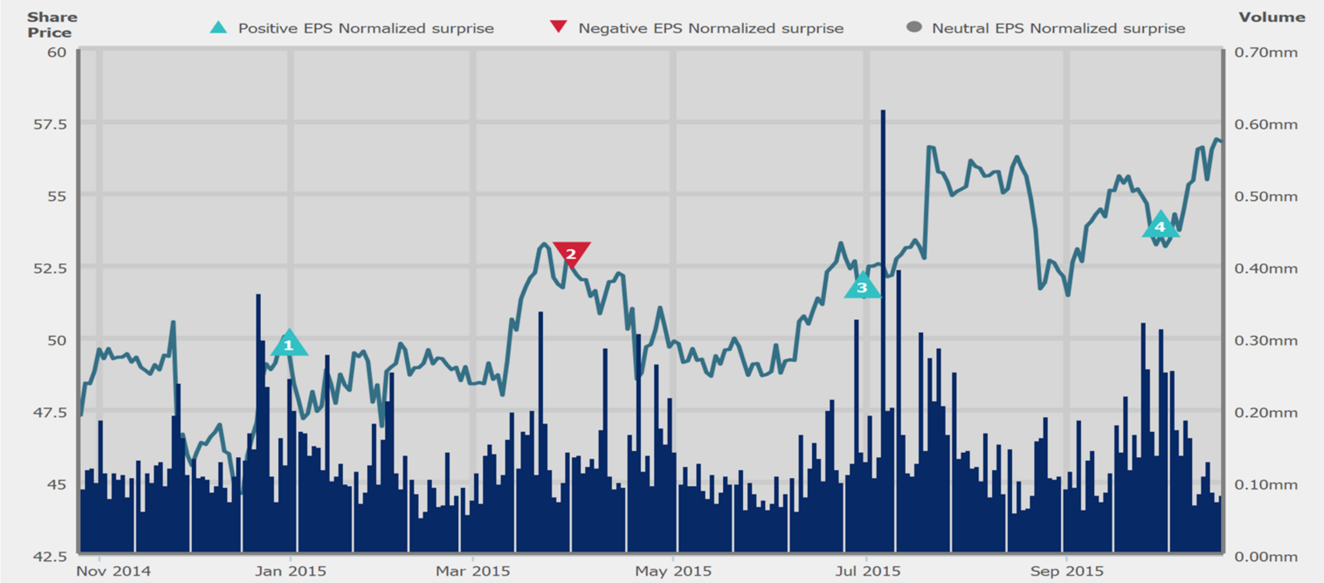
FQ4 2015 Earnings Call Transcripts

Tuesday, January 26, 2016 4:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.64	0.56	(12.50 %)	0.50	2.62	2.53
Revenue (mm)	192.61	207.33	7.64	194.09	767.10	794.63

Currency: USD
Consensus as of Jan-26-2016 6:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.60	0.71	18.33 %
FQ1 2015	0.52	0.50	(3.85 %)
FQ2 2015	0.54	0.77	42.59 %
FQ3 2015	0.58	0.70	20.69 %

Call Participants

EXECUTIVES

Aaron H. Jacoby
Vice President of Corporate Development

Craig William Kliethermes
President and Chief Operating Officer

Jonathan E. Michael
Chairman and Chief Executive Officer

Thomas L. Brown
Chief Financial Officer and Senior Vice President

ANALYSTS

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

Ian Gutterman
Balyasny Asset Management L.P.

Jeff Schmitt

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Presentation

Operator

Good day and welcome, ladies and gentlemen, to the RLI Corp. fourth quarter earnings teleconference. At this time, I would like to inform you that this conference is being recorded. [Operator Instructions]

Before we get started, let me remind everyone that through the course of the teleconference, RLI management may make comments that reflect their intentions, beliefs and expectation for the future. As always, these forward-looking statements are subject to certain risk factors, which could cause actual results to differ materially. These risk factors are listed in the company's various SEC filings, including the Annual Form 10-K, which should be reviewed carefully. The company has filed a Form 8-K with the Securities and Exchange Commission that contains the press release announcing fourth quarter results.

RLI management may make reference during the call to operating earnings and earnings per share from operations, which are non-GAAP measures of financial results. RLI's operating earnings and earnings per share from operations consist of net earnings after the elimination of after tax realized investment gains or losses. RLI's management believes this measure is useful in gauging core operating performance across reporting periods but may not be comparable to other companies' definitions of operating earnings. The Form 8-K contains reconciliation between operating earnings and net earnings. The Form 8-K and press release are available at the company's website at www.rlicorp.com.

I will now turn the conference over to RLI's Vice President, Corporate Development, Mr. Aaron Jacoby. Please go ahead, sir.

Aaron H. Jacoby
Vice President of Corporate Development

Thank you. Good morning to everyone. Welcome to the RLI Earnings Call for the Fourth Quarter of 2015. Joining me on today's call are Jon Michael, Chairman and CEO; Craig Kliethermes, President and Chief Operating Officer; and Tom Brown, Vice President and Chief Financial Officer. I'm going to turn the call over to Tom first to give some brief opening comments on the quarter's financial results. Then Craig will talk about operations and market conditions. Next, we'll open the call to questions, and Jon will finish with some closing comments.

Tom?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Thanks, Aaron, and good morning. We're pleased to announce another strong quarter, capping a successful end to our fiscal year that all RLI associates and their fellow shareholders can be proud of.

Starting with the combined ratio, we achieved an 87.4 in the quarter, bringing the year-to-date combined ratio in at an 84.5, the same level we achieved in 2014. As I'm sure Craig will reiterate and it certainly bears repeating, 2015 represents our 20th straight year with a combined ratio below 100 as well as the 11th consecutive year below 90, a remarkable achievement. Profitable growth has not been easy to achieve lately, given continued challenging market conditions. So with that in mind, we're pleased to report top line growth to go along with our sub-90 combined ratios. For the quarter, gross premiums grew 3% over last year while net premiums written expanded 5%.

Two of our segments, Casualty and Surety, continued the trend of a combination of growth and underwriting margins in the quarter compared to the same quarter a year ago. Casualty gross written premiums grew 6% while Surety grew 7%. Casualty achieved this growth on the strength of a 92 combined ratio while Surety achieved a 75. The Property segment continues to be challenged with regard to catastrophe pricing, and premium was off 7% in the quarter, although combined ratio was a strong 84. Craig will comment further on this momentarily. Consistent with prior quarters, favorable reserve leases -- releases, net of expenses, led to an increase in underwriting income of $7.7 million with a positive impact in each segment. Obviously, the level reserve releases can be volatile from quarter-to-quarter, but ultimately, our conservative approach to reserving remains an RLI hallmark.

Turning to investments. The fourth quarter represent a bounce-back for the equity markets, driving our portfolio's total return to 1.4% for the quarter and 1.5% for the full year. Given the year-to-date market volatility so far in 2016, let me give a brief update. We're pleased that the downside protection built into our equity strategy has put that portfolio in a better position than the overall S&P 500 with outperformance of a couple of percentage point so far in 2016. Furthermore, the downdraft in equities has been nearly offset by a positive return in our larger bond portfolio. Our diversified high-quality portfolio has served us well, but we don't expect any significant changes to our approach. With regard to our minority investments, the fourth quarter is a cyclically slow one for Maui Jim so there isn't much income statement impact in the quarter. For the year, Maui Jim returned -- turned in slightly lower earnings due to the expected foreign exchange headwinds and the previously disclosed write-down of a capital asset in the third quarter. Our minority investment prime insurance continues to grow profitably.

There are a couple of tax items to mention that impacted the operating income comparison from last year. First, we received a tax deduction for dividends we pay that passed through our ESOP. The $2 special dividend in the fourth quarter resulted in a $0.06 per share tax benefit, down $0.02 per share from last year when the special dividend was $3 per share. In addition, we did not receive a special dividend from Maui Jim this year, whereas last year's dividend from them produced a $0.04 per share tax benefit. Combined, these 2 tax items benefited fourth quarter operating earnings by $0.06 per share compared to $0.12 per share in the fourth quarter 2014. All in all, with strong underwriting performance driving our results, book value per share was up 10.5% in 2015, inclusive of dividends.

And with that, I'll turn the call over to Craig Kliethermes. Craig?

Craig William Kliethermes
President and Chief Operating Officer

Thanks, Tom. Good morning, everyone. A very respectable quarter for our team, an 87 combined ratio with 3% gross written premium growth. We finished another successful year as we were able to record a sub-85 combined ratio while keeping our top line relatively flat despite battling a challenging market, some economic headwinds and a $40 million premium hole left by our exit from crop reinsurance. And as Tom mentioned earlier, this completed 2 consecutive decades of annual combined ratios below 100 and 11 consecutive years under 90, a great job by our underwriters, our claims staff and all of our associates. Thank you, and congratulations.

The market is challenging, but relatively stable and predictable across most of our portfolio. We continue to grow in products where profitable opportunities present themselves, pruning in the underperformers, always with a focus on our hallmark underwriting discipline. Net written premium growth continues to outpace gross as the result of mix, better reinsurance outcomes and our willingness to take risk where it makes economic sense. We were able to finish the year with our highest net written premium and premium retention in our company's history. I'll talk more about our reinsurance outcomes later.

In our Casualty segment, we grew gross premiums 6% for the quarter and 8% year-to-date. We continue to see significant growth from our transportation business, up some 30% for the quarter and year-to-date, still a lot of disruption in this space, also known as pain, in this product line for many in the industry. Our underwriting results continue to be a relative outlier as our team continues to apply its proven, consistent approach and expertise to this market. We also continue to see double-digit premium growth from our E&S excess Casualty and CBIC package businesses.

The construction industry continues its slow rebound with increasing competition in the space. Local knowledge and policy terms are a big differentiator when writing contractors, and we've seen some lack of discipline and lack of knowledge from competitors. This will likely come back to bite them over time. We've invested both in additional people and product across our Casualty portfolio as we have seen some fallout of people from the M&A activity between quality companies. As you know, we believe that quality underwriters and claims staff who buy into our model are the bedrock of RLI.

Overall, Casualty rates have remained slightly positive. Large accounts are consistently under pressure. New business is challenging to find at the right price as everyone is very defensive of their best accounts. Most of the price is being driven by wheels-based business, where rates continue to be up 5% to 10% depending on the class and underwriting performance. We've also seen some pricing improvement on smaller nonmedical professional accounts.

Our Property segment has had a challenging year from a revenue perspective. Premium was down 7% for the quarter and 21% year-to-date. Excluding the loss of the crop business, we were still down 6%. We have spent some effort rehabilitating our RV recreational vehicle business, and of course, our E&S CAT-exposed business is under significant pressure. Primary pricing on CAT continues to be challenging even after factoring the relatively cheap capital provided by reinsurers and alternative capital. Rates on CAT are down about 15% year-to-date, the second straight year of double-digit decreases.

When we see larger players writing accounts at 100% of expected model loss, providing 3 months of extra coverage for no charge and readily deploying $100 million policy limits, we have to wonder if discipline will return anytime soon. Memories are short, but paybacks are long in this business. We continue to offer responsible terms and conditions and pick our spots.

On a brighter note, our marine business ended the year with a combined ratio close to 90. We think we have righted the ship with the right team and the right focus. They continue to get a little bit of rate while growing about 7% for the quarter.

Our Surety segment is enjoying success despite continued competition. Overall, we grew 7% for the quarter and 6% year-to-date with sub-80 combined ratios on a quarter and year-to-date basis. All products in our Surety portfolio contributed underwriting profits for the quarter and the full year. In energy and commercial Surety, our growth has mostly been the result of broadening our relationship with existing clients. We continue to see stiff competition and a general lack of discipline with what appears to be cash flow underwriting mentality in the space. For our small miscellaneous business, growth has come from our investments in technology and service.

I did want to mention that on 1/1, we buy approximately 50% of our reinsurance. We were very pleased with the outcomes. With the help of our brokers, we were able to negotiate an approximate 5% risk-adjusted rate reduction across our Casualty and Property placements. We're able to improve upon many other terms while keeping our reinsurance structures and loss retentions almost identical to expiring. The highlight of our replacement was securing a 2-year deal for our broad casualty treaty while improving rates, terms and the security of our panel. This will create stability for our underwriters and is an acknowledgment by our reinsurance partners of the quality and consistency of our underwriting, claims handling and our financial performance. I want to congratulate all of the RLI associates for closing another great year and acknowledge that they are already working hard to deliver on 2016.

Aaron H. Jacoby
Vice President of Corporate Development
Great. Thank you, Craig. We can now open the call up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Arash Soleimani.

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

A couple of questions here. On the expense ratio front, the uptick that we've been seeing in Property, is that really just a function of pricing there? Or is there something else going through that?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Arash, it's Tom Brown, thanks for the question. I would say it's 2 things. As Craig mentioned, we did exit the crop business during 2015. And if you adjust for that, which had a very low expense ratio, it would take the -- I think if you look at it from last year's basis of roughly on a pro forma, go from about 38% to 42%. So that's probably the biggest driver of that increase. And then coupled with the decline in the CAT and the prior Property business, we've maintained our underwriting force. We think very highly of them. Pretty consistent with past practice, like our general Casualty, we kind of hunkered down. So the expense will still be there as we get through this tough time, and obviously, less premium base is going to make a higher expense ratio for the time being.

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

And at this point in the cycle, what leverage ratio, I guess, are you targeting or are you comfortable going to on a premium to surplus basis?

Craig William Kliethermes
President and Chief Operating Officer

Obviously, we evaluate that based on the risk that we're taking. I mean, our portfolio, more so a little bit, depending on the risk. Right now, obviously, we have a little bit of less CAT risk. So certainly, that leverage has moved up a little bit over time, and it might move up a little more. But we're close to where we want to be, I think.

Thomas L. Brown
Chief Financial Officer and Senior Vice President

This is Tom. I would just add, we have, as we said on prior calls, taken a little more net over the last couple of years. So it's moved up as a percentage of capital.

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

And can you provide -- lastly, just maybe a few more comments. I think you said you were able to get a few more underwriters from some of the shakeout, I guess, from M&A. Can you talk maybe what lines are you starting to see get more traction with? Or what area?

Craig William Kliethermes
President and Chief Operating Officer

Well, yes, this is Craig Kliethermes. I mean, we have hired a handful of people from -- particularly from the XL-Catlin merger and continue to look for people, although I think it's a little early for the Chubb-Ace merger. But we've hired a few people. It takes a little time to ramp up products. So we really don't want talk about the products. Still, they're up and going, and we've made some kind of press release on them. But we are working diligently to get those products up and going. There are senior underwriters from those teams with a following, mostly in the casualty space. I'll help you there. How about that?

Operator

We will take our next question from Mr. Randy Binner from FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

So on reserve release, it was favorable, of course, but it was lower than we expected and it's not an easy number for us to forecast. And so is there anything unusual kind of timing-wise or any color you would add to the amount of redundancy that came through for the fourth quarter?

Thomas L. Brown
Chief Financial Officer and Senior Vice President

Randy, it's Tom Brown. I'll start. Maybe Craig might want to add. It's kind -- just so the business, insurance, it's going to vary from quarter-to-quarter. I'd like to point out, if you go to the full year, it's pretty consistent, around $60 million favorable release in '14 and 2015, probably within plus or minus $1 million. Casualty, down a bit. Most of it's coming from the 2010 and through 2011 and, again, 2013 to 2014 accident years. Again, that's down, I think, from last year. Property is about $2 million, primarily marine, again, more current accident years. And Surety is, again, kind of across-the-board. It's 2012 and 2014. We take a prudent conservative approach to reserving. That has not changed. That's the hallmark as well of RLI. So positioning hasn't changed. And again, I think, we would take -- get a look at a longer-term view as opposed to a quarter-to-quarter view.

Randolph Binner
FBR Capital Markets & Co., Research Division

Sure, understood. And then -- but within the context of that longer-term view is -- do you think the absolute level of redundancies may be coming down for RLI and the group? I mean, it was -- empirically, it's down, right, in '15 versus '14 and '13 before that. Is that the right way to think of it, that the kind of very -- some of the very good underwriting years is kind of '08 and prior and maybe '12, I guess, is going to be a real good year. Maybe that's still given some. But is it right to just kind of think of those numbers on an absolute basis being lower going forward than where they've been the last couple of years?

Craig William Kliethermes
President and Chief Operating Officer

Randy, this is Craig Kliethermes. I mean, all I can attest to is our processes remain the same for probably the last 15 or 20 years. It hasn't changed in recent years either. Reserve releases are a function of whether losses come in worse or better than what we have planned. We continue to plan and budget in the same fashion we always have. So it's very difficult for us to project or estimate. There's a lot of randomness in those numbers. As Tom said, if you look at it over a longer term, it looks fairly flat. If you look over quarter, it looks pretty random. Some quarters are good or big releases, some are a little smaller. So your guess is probably as good as ours in regards to whether there's going to be -- what the level of reserve releases would be on a go-forward basis.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay. And then on -- I guess the comments just around -- you said you're getting 5% to 10% on commercial. I think you said wheels, but I mean I think it's mostly commercial auto with you guys. And are you seeing a lot of -- I mean, I guess, a, is that true? And, b, are you seeing a lot of -- you're still seeing a lot of people exit commercial auto exposures and that -- can you remind us where -- I think you're playing in fairly large pieces here.

Craig William Kliethermes
President and Chief Operating Officer

Sure. Yes, Randy. So this is Craig again. So we write auto in a couple of places. Our biggest -- the biggest, most concentrated place is in our transportation space, which is the one I specifically talked about, which does trucking, public autos and, I'll say, specialty commercial autos. And in that space, we're seeing -- across-the-board, we're seeing rate increases on any commercial wheel-based business, okay? Now for us, that -- those results have been pretty good. So our -- the increase that we actually think we need is not that great relative to what we were hearing, a lot of pain in the space, particularly in that space. As part of our package through CBIC or some of our professional liability stuff, our recreational vehicle stuff, we do, do auto business there. It's pretty much -- other than the RV, that's pretty much plain vanilla, a pickup truck or a private passenger-type car. The rates are also going up in that space as well. We don't see as many people exiting that space or as much -- maybe as much pain. But certainly, the results aren't where I think people want them to be. And I would say -- we would say the same thing in that space. We're taking a rate in that space where we actually need it. In our transportation space, the first one I talked about, we've actually had really good results and much to the contrary of most of the industry in the trucking and public space.

Randolph Binner
FBR Capital Markets & Co., Research Division

Okay, great. And just one more, I missed it in your opening commentary. But you said your 1/1 reinsurance renewals were favorable. I think you said, probably the exposures were the same. Did you kind of characterize how much lower the price was if the exposure was relatively flat on that?

Craig William Kliethermes
President and Chief Operating Officer

Yes, the risk-adjusted decrease was about 5%. I mean, it ranged by placement, but 5% is a pretty good number. We saw decreases across both Property and Casualty, CAT and per risk.

Operator

We'll take our next question from Mr. Jeff Schmitt from William Blair.

Jeff Schmitt

Quick question for you. On the -- I actually was curious on the transportation book, too. I mean, are you guys seeing any opportunities with any dislocation from the Zurichs or AIGs, where there's books being made available? So beyond -- obviously, the rate increase are pretty good right now. But are you seeing even more opportunities there from dislocation?

Craig William Kliethermes
President and Chief Operating Officer

Yes. Jeff, this is Craig Kliethermes. I mean, we have seen opportunities to roll books of business from certain brokers, particularly in the Zurich and other companies that have had some real difficulties in this space. Unfortunately, when you dig down on the details, we're not interested in the whole book rollover, in most cases, because either they don't fit our underwriting guidelines or they weren't willing to accept our pricing. Unfortunately, we still have people in the space that are willing to offer maybe a slightly higher than the expiring carrier, but not where we think they need to be for us to make money. So we're going to continue to be disciplined in that space. But it is providing ample opportunity even though we're not seeing whole book rollovers.

Jeff Schmitt

Okay. And then question just on the M&A front. Can you maybe speak to what you're seeing out there right now? And with the dividend down, does that open up capital for deployment in that way? Or what drives the sort of lower dividend compared to last year?

Jonathan E. Michael
Chairman and Chief Executive Officer

It's Jon Michael. We continue to look at the M&A opportunities, just as we always have, and don't read anything into that lower dividend. It's just based on our capital -- really our capital needs. In -- last year, we had better capital at the end of the year for shareholders.

Operator

We will take our next question from Mr. Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Well, a couple of questions. Staying with the transportation, people have been kind of beating up on this for a bit. Seems like the, I'll say, above average or very strong growth has persisted there for about 3 or 4 quarters now. Are you getting to the point where the pipeline for new business there is starting to lap? Or do you still see kind of reasonably good runway to continue to grow at the kind of 20-plus clip that you've done for the last few quarters?

Craig William Kliethermes
President and Chief Operating Officer

Mark, this is Craig. I mean, all I could speak is the year-end, and it didn't really slow down through year-end. The flow of business and submissions continue to be up across all 3 of those segments that I talked about. I mean, I think there's a lot of pain out there, not just the stuff that's been published, but I think in general, just pain in the commercial auto space. We've been fortunate to have avoided that pain, and we've seen it as an opportunity for us. So -- and obviously -- the only thing I could say about the future, obviously, is that we know that it changes fairly quickly and rapidly depending on whether some of those MGAs get new markets and people's appetite seems to be -- it's hard to quench for trucking and wheels business. People tend to always think they can make money in that space even after they've gotten burned. So we're not so optimistic to think that it couldn't change fairly rapidly.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

To the extent that you're winning account business there, is -- I guess I'm aware more broadly that the trucking and transport sector is one that has seen shrinking volumes. So are you winning because other carriers are just simply saying, this isn't worth our trouble, we'd rather let these smaller, midsized, or whatever size accounts you're winning, accounts go? Or is it because their loss experience has been abysmal and you guys are kind of last man standing or one of the men standing, that you get the opportunity to kind of come in and take the account?

Craig William Kliethermes
President and Chief Operating Officer

Well, I think some have thrown in the towel, and certainly, we've seen that. And I think you guys have seen some announcements about people trying to sell their book of business or things like that. So I think some people are throwing in the towel. Some people are trying to get significant rate. And I do think anytime a customer sees a large rate increase, it starts to make them think about, "Am I getting value for what I'm paying for?" And I think that -- I think they look at our transportation unit, and they view it to bring some value besides just a piece of paper and a price. We are experts in that field. We have expert claim people and our service is exceptional, and we focus on that. And our people are extremely knowledgeable and deep in that space. So I think at that point in time, people step back and say, "Even though RLI might be a little more expensive, I think I actually get something for that money." And -- at least, that's what we believe. And so we still have competition, but it is -- we do have people, like I said, that are trying to get pretty significant increases in, so a few that have thrown in the towel.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, that's very helpful on that. Second question, it's just kind of follow up to one of the earlier questions related to the reserving, the reserve releases in the quarter. Were there any notable additions to reserve by any product or accident year that kind of offset that number lower? I guess what I'm trying to get at is, do you have kind of 10 points of favorable offset by 6 points of unfavorable? Or is it just the normal kind of pluses and minuses, just smaller magnitude this quarter?

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes, it's Jon Michael. It's the latter. It's -- reserve releases by quarter are really hard to predict, and we have pluses and we have minuses. And we go through a process every quarter, and it is what it is. So there isn't any pattern to it.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay, got it. The next question I had related to -- you guys do an oil and gas Surety business. Could you talk a little bit about that and maybe give some insight on whether the recent carnage in the oil patch is something that is -- creates opportunity for you? Is it creating additional exposure for you? Just trying to understand how -- what we're seeing in the energy world interplays with your specific type of Surety book there?

Craig William Kliethermes
President and Chief Operating Officer

Sure. This is Craig again. I can answer that question. We are in the energy surety space, and it is around -- about half of that business is offshore, and about half of it's onshore. It's -- energy companies are certainly impacted by the price of oil, and right now, obviously, they're negatively impacted by the price of oil. When you think of energy surety, you kind of have to think of that business as being a dual trigger business in regards to loss. I know a lot of people think surety is associated just with simply something that might go out of business. But it's really -- in energy surety it's, one, the company has to not have the resources to basically plug and abandon some property that needs to be plugged and abandoned or that is being abandoned. In our case, we look both at the financial security that an energy company provides and then also at the property that we're bonding, so the particular well that we might be bonding, and make sure there are still assets in the ground. And as long as there's assets in the ground and the world is dependent on hydrocarbon, I think we believe that those assets are going to be worth something even if the energy company would default. So it really is a dual trigger loss situation. We've been in a situation like this before. You think back in 2008, oil prices were at about $140 a barrel and they went to $40 a barrel in a fairly short period of time, and it created a fair amount of pressure. We still made it through those years with making an underwriting profit in the business. That being said, we continue to see people that are aggressive in this space. And we've spent the last 18 to 24 months topgrading our portfolio of risks. We kind of looked back at that time and saw there's some disruptions, some very aggressive people in this space, technology was changing and we also saw an extension to lower the credit companies at that point in time. And we actually went through a process of topgrading our portfolio, getting rid of our worse or our riskier assets or the riskier insureds. By the way, at that time and even still today, it's very easy to get off accounts because we have people that are very aggressive and would love to replace us. So it's actually been very easy for us to topgrade our accounts. It doesn't mean that we don't -- we're not worried. We're always worried when there's a lot of volatility in that space. But I think we're in a better position than most. And we weathered this storm before so we feel pretty good about our team.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So just to sum up that response, which was very helpful -- to sum up that response, it's not particularly a growth opportunity for you at this point in time, really more probably you're accurate -- more accurately, you're kind of shrinking into your best accounts. And then secondly, at least so far, not that there hasn't been a real change in the risk profile at least so far.

Craig William Kliethermes
President and Chief Operating Officer

Right. I would actually look at our portfolio and say the quality, the risks are better. We have been able to grow a little bit, but mostly with the best clients, not really growth in account number but breadth with individual accounts that are the best quality accounts. So we still think there's an opportunity. I'm not sure it's today, but we think there will be opportunity when a few of these more aggressive folks end up having a few losses.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Right, okay. The very last question I had, just the big winter storms that have impacted the northeast. Do you guys have any particular or aware of any particular exposures to that? Any particular property risks that you're particularly worried about? I'm sure you don't have any claim numbers at this point but...

Craig William Kliethermes
President and Chief Operating Officer

We have -- obviously, that's really a first quarter event. But the -- I mean, certainly, we have some risks, mostly associated with our treaty business. We write a few treaties in that area. We've had no reported claims to this date. And a lot of places where treaty is -- it's actually warmed up fairly quickly, so we're not really too worried about the buildup of ice and snow because I think it's going to melt fairly quickly in those states.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Talking about my house.

Operator

We take our next question from Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I was actually going to ask about the Surety as well, so if maybe I can follow up on some of what Mark asked. First, can you tell me -- I assume you're writing -- you're not writing individual wells. You're writing a contract. So if that contractor has 20 wells, you're writing 20 under 1 bond? Or is there a bond for each well?

Craig William Kliethermes
President and Chief Operating Officer

We could be doing both. So a lot of it is individual wells, but then there's some broad operator bonds that cover the entire account, so an area-wide bonds as well from time to time. So it can be a mix of both.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And so how does it work if just given low prices, maybe the contractor is in okay financial shape but they could just choose not -- to essentially shut down half their wells because it doesn't make economic sense to pump. Is that a loss event because nothing is being produced? Or as long as the contractor is financially solvent, it's not a loss event?

Craig William Kliethermes
President and Chief Operating Officer

We're only going to plug and abandon wells if they don't have the financial resources to do so. So we're not going to do that for them just because they decide they want to shutter a well. They'd have to pay to do that themselves.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, okay. So there has to be financial distress at the contractor that causes -- that would be the first trigger as opposed to them just choosing not to pump.

Craig William Kliethermes
President and Chief Operating Officer

Financial distress and then they cannot sell the asset or dispose of the asset. In fact, some -- I mean, remember, if there's oil in the ground and there's other people that are willing to buy it, they're probably going to continue to pump that oil, so that well does not need to be capped.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I guess I was getting to the issue just -- I think one of the big reasons prices are down, right, is that everyone's still pumping even though prices are down, and it sounds like that's finally starting to change. And so there's sort of voluntary to passive removal. I was wondering if that was an issue. It doesn't sound like it, I guess. And then the only thing related to that is -- you mentioned, obviously, that collateral is the oil in the ground. But how do you -- if you wrote a -- first of all, I assume these are 1 year renewable contracts, or are they longer term in some cases?

Craig William Kliethermes
President and Chief Operating Officer

They can be longer term.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. So when you priced a contract, I assume you price it at the oil curve of that time, so you might have written something at $8 oil that's now at $30. Is that fair?

Craig William Kliethermes
President and Chief Operating Officer

I mean, that's possible. I mean, remember, they pay annual premiums though, so we do have the capability to adjust premium.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. That's what I was wondering is how -- that's what I was trying to get at is sort of how does that work, right? So if you assumed -- if you price it, I assume that, that recoverability was based on what oil was at the time, and oil goes down a lot. Yes, the assets are still on the ground. But if there was half of what they were, doesn't that suggest severity has gone up essentially? That if there's a loss, it's going to be a bigger loss?

Craig William Kliethermes
President and Chief Operating Officer

No, no, I don't think so. There's a limit on the bond. So -- I mean, there's certain costs to plug a well, so.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I guess I was just thinking that second trigger you mentioned, the sort of recoverability of the reserves isn't just the dollar value of that less than it was a year or 2 ago. So it's a less valuable offset.

Craig William Kliethermes
President and Chief Operating Officer

Again, as long as someone's willing to buy the well, I don't really care what they buy the well for. As -- they now have responsibility to plug that well. So I don't have to plug it, new ownership, so.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, okay. And then just on the more traditional Surety book, because it seems the market's concerned that we're having a recession, which I'm not sure I see that, but that's what the market seems to be saying. Just where in just the traditional Surety book might there be concern if we do end up having a broader recession, that there -- we could see increased claim activity?

Craig William Kliethermes
President and Chief Operating Officer

Well, anytime there's a credit event, I mean, regardless, I mean, you have -- I mean, that's where you would expect to see some exposure.

Ian Gutterman
Balyasny Asset Management L.P.

But I bet -- I mean, are you -- actually, I'm trying to get a sense of your mix. Is it more residential construction, commercial construction? Are there certain types of sectors or industries where you have a bigger presence?

Craig William Kliethermes
President and Chief Operating Officer

Our Surety business is fairly diversified. So I mean, we do write contract surety, but we write both commercial and residential exposures across the country. So I don't know if I can -- I don't know if I'm answering your question.

Ian Gutterman
Balyasny Asset Management L.P.

No, that's okay. That's generally I presumed. I just want to make sure there wasn't something I haven't thought through, so.

Operator

There are no further questions. I will now turn the conference back to Mr. Jonathan Michael. Please go ahead.

Jonathan E. Michael
Chairman and Chief Executive Officer

Thank you all for joining us this morning. Good quarter, good year, combined ratio, sub-85 for the year. By anyone's measure, that's very, very good. 11 consecutive sub-90 combined ratios and 20 years below 100 is not something to sneeze at. Congratulations to all of our associates for that record. It is quite an accomplishment.

So thank you again, and we'll talk to you again next quarter.

Operator
Ladies and gentlemen, if you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 with an ID of 2468405. This concludes our conference today. Thank you all for participating, and have a nice day. All parties may now disconnect.