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Earnings Call

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Call Participants

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Presentation

Operator

Good afternoon. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Old Republic International First Quarter 2024 Earnings Conference Call. Today's conference is being recorded.

[Operator Instructions] At this time, I would like to turn the conference over to Joe Calabrese with the Financial Relations Board. Please go ahead.

Joe Calabrese

Thank you. Good afternoon, everyone and thank you for joining us for the Old Republic conference call to discuss first quarter 2024 results. This morning, we distributed a copy of the press release and posted a separate financial supplement. Both of these 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 financial supplement dated April 25, 2024.

Risks associated with these statements can be found in the company's latest SEC filing. This afternoon's conference call will be led by Craig Smiddy, President and CEO of Old Republic International Corporation, and several other senior executive members, as planned for this meeting.

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

Craig Richard Smiddy
President, CEO & Director

Okay. Joe, thank you. Good afternoon again, everyone, and welcome to Old Republic's First Quarter 2024 Earnings Call. With me today is Frank Sodaro, our CFO of ORI, and Carolyn Monroe, our President and CEO of our Title Insurance business.

Well, during the first quarter of 2024, we produced $231.5 million of consolidated pretax operating income. That's up from $222.9 million in 2023 despite the challenges that we'll talk about that we're seeing in Title insurance. Our consolidated combined ratio was 94.3%, a bit higher than the 92.7% last year. And primarily, that's because of the higher combined ratio we're seeing in Title Insurance.

General Insurance's strong underwriting results continued into 2024, producing $220 million of pretax operating income, and that's a 14% increase year-over-year. The General Insurance combined ratio was 90.3% in the quarter.

In Title Insurance, higher mortgage interest rates and a slow real estate market presented us with some challenges, and that led to much lower pretax operating income of $2 million and a 100-point -- 102.5% combined ratio in the quarter.

Our conservative reserving practices continued to produce favorable prior-year reserve development in both General Insurance and Title Insurance, and we'll talk about that a little bit more. Our balance sheet remains strong while we returned capital to shareholders through both dividends and share repurchases.

Focused on the long term, we are investing in our new General Insurance underwriting subsidiaries as well as in technology, and that goes for both General Insurance and Title Insurance.

So with those introductory comments, I will now turn the discussion over to Frank Sodaro, and then Frank will turn things back to me to cover General Insurance, followed by Carolyn, who will discuss Title Insurance. And then as usual, we'll open up the conversation for Q&A. So with that, Frank, I turn the discussion over to you.

Francis Joseph Sodaro
Senior VP, CFO & Chief Accounting Officer

Thank you, Craig, and good afternoon, everyone. This morning, we reported net operating income of $185 million compared to $179 million last year.

On a per share basis, net operating income was $0.67 in the quarter up nearly, 10% from last year. Net investment income increased another 19% in the quarter, and that was driven by higher yields. Our average reinvestment rate on corporate bonds was 5%, while the comparable book yield on corporate bonds disposed of was 3.4%.

Total bond portfolio book yield stands at 4.1% compared to 4% at the end of last year. Our investment portfolio mix remained consistent with last quarter. With regard to the bond portfolio, the quality also remained very high with 99% in investment-grade securities, and the average maturity was consistent at 4.3 years.

During the quarter, the valuation of our bond portfolio decreased by approximately $100 million, driven by higher interest rates, while the value of our stock portfolio increased by about [$185 million]. Much of the increased value was realized in the quarter so we ended in an unrealized gain position consistent with last year-end of just over $1.1 billion.

From a loss reserve perspective, General Insurance and Title both recognized favorable development in the quarter, leading to a benefit of 2.3 percentage points to the consolidated loss ratio. This compares to favorable development of 4.5 points last year.

We are still expecting to close on the sale of our run-off mortgage insurance operation during the second quarter. Activity from this operation is immaterial to our consolidated results and due to the pending sale, no longer has an impact on our bottom line.

We ended the quarter with book value per share of $23.83, which inclusive of dividends equated to an increase of 3.4%, and that resulted from our strong operating earnings and higher investment valuations. In the quarter, we paid $72 million in dividends and repurchased $183 million worth of our shares for a total of just over $264 million returned to shareholders.

Now since the end of the quarter, we repurchased another $146 million worth of shares, leaving us with about [$840 million] remaining in our current repurchase program.

I'll now turn the call back over to Craig for a discussion of General Insurance.

Craig Richard Smiddy
President, CEO & Director

Okay. Frank, thanks for that. General Insurance net written premiums were up 14% in the quarter with strong renewal retention ratios, rate increases on most lines of coverage, new business growth and premium production kicking in, in our new underwriting subsidiaries. D&O and workers' compensation are the lines of coverage, where we do continue to see rate decreases. And I'll talk a little bit more about that when I discuss workers' compensation.

As mentioned in my opening remarks, General Insurance pretax operating income was $220 million, and the combined ratio was 90.3%. So we continue to grow at a very profitable level in General Insurance. The loss ratio for the quarter was $62.7 million, and that included 2.5 points of favorable reserve development. The expense ratio was steady at 26 -- excuse me, 27.6.

Turning to our two largest lines of coverage, commercial auto net premiums written grew by more than 15% in the quarter, while the loss ratio came in at 71.9% compared to 73.7% last year, and we continue to experience favorable development from prior years in this line of coverage.

Rate increases were in the 10% range, and that continues to be commensurate with the loss trend that we're observing. Workers' compensation net premiums written increased by 4.5% in the quarter, while the loss ratio came in at 47% compared to [52.5] last year.

And here, too, we continue to experience favorable prior-year loss development. Frequency for workers' compensation continues the [year's] long trend downward, while the severity trend remains relatively stable. So given the higher trend in payroll, which as a reminder, is our rating base, we think our rate levels remain adequate even with rate decreases of approximately 5% for workers' compensation.

We expect solid growth and profitability in General Insurance to continue throughout 2024, reflecting the success of our specialty strategy, our excellence initiatives and our new underwriting subsidiaries.

So I'll now turn the discussion over to Carolyn to report on Title Insurance. Carolyn?

Carolyn Jean Monroe
President

Thank you, Craig. The Title Group reported premium and fee revenues for the quarter of $545 million. This represents a decrease of 6% from first quarter 2023, Directly produced premium and fees were up 8% from first quarter 2023, while agency-produced premiums were down 10%. As a reminder, agency-produced business represents the bulk of our business and is generally reported on about a 1 quarter lag compared to direct business.

Commercial premiums decreased 24% this quarter compared to the first quarter of 2023. Commercial premiums were [21%] of our earned premiums this quarter compared to 25% in the first quarter of 2023. The nationwide expanded and transformed footprint of our commercial team, along with our commercial agency services group positions, us well to win the market rebounds.

While challenging market conditions and interest rate uncertainties persist as the second quarter begins, we believe the trends in our order counts, along with a modest uptick in our directly produced revenues or positive signals as we head into the seasonally more active market period.

Our pretax operating income of $2 million compared to [$17 million] in first quarter 2023. Our combined ratio of 102.5% compared to 99.3% in the first quarter of 2023. And as a reminder, the first quarter of last year results were impacted by the recovery of a [$17 million] state sales tax assessment.

Excluding this favorable impact, our expense ratio and pretax operating income for the quarter was roughly in line with the first quarter of 2023. We continue to diligently manage our expenses. However, our expense ratio remains elevated and reflects the nature of certain fixed costs decreasing at a slower pace than the drop in revenues.

As we have been discussing on past calls, our leadership team is focused on executing our strategic plan and the driving need to stay on the leading edge of technology. Our strategic plan is built around our agents and our people.

One of the cornerstones of the plan is a focus on innovation that enables the success of our agents. As we continue to emphasize, this includes streamlining the closing process through fully digital and hybrid [closings] executed on a single, secure collaborative platform and offering our agents a comprehensive approach to help address wire fraud and assist with payoff verification.

We are also providing state-of-the-art cloud-based title production and transaction management solutions to modernize and streamline operations. We believe providing the best tools to our internal teams and agents will provide us with an advantage in this market in when the market improves.

One last item because we have received a few questions recently regarding proposals at the federal level that could change how Title Insurance is transacted. These include the use of attorney opinion letters in place of Title Insurance and changes to who pays for or even waivers for Title Insurance in certain transactions.

We would characterize these developments as early stage and still subject to much debate and lobbying. But considering the recent press, we wanted to note that we are tracking these developments and at this time, do not anticipate any significant implications for our business.

Thank you, and I'll now turn the call back to Craig.

Craig Richard Smiddy

President, CEO & Director

Thank you, Carolyn. So we enter 2024 with a continuation of profitable growth in General Insurance, mitigating the lower revenue and profit levels in Title Insurance. And for the rest of 2024, we remain optimistic for General Insurance, while we remain of the view that Title Insurance will continue to face mortgage, interest rate and real estate marketplace challenges.

So that concludes our prepared remarks, and we'll now open up the discussion and Q&A, and I'll either answer your questions or I'll ask Frank or Carolyn to respond.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Matt Carletti at Citizens JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

The -- I guess maybe just -- I'll start with title where you kind of left off on the commentary and couldn't help but notice and then you noted how kind of the direct showed some growth, agency continued to shrink, but there's a lag there.

Are you seeing a shift in the market where you would expect kind of agency to flatten out or return to growth even despite kind of the stickiness of mortgage rates and you're just seeing it first in direct? Or is there something else going on there that kind of keeps those two acting a little different?

Craig Richard Smiddy
President, CEO & Director

Carolyn, if you could perhaps embellish a little bit on the comments you made earlier about what we're observing there in our order count as well as in our direct operations?

Carolyn Jean Monroe
President

Sure. We always use our direct operations as kind of a bellwether for what's also going on with our agents because they're all out in the same market so because the agency -- the agents report their premiums to us on a lag of about 3 months.

We feel like because our direct -- the orders are starting to uptick and also that our revenue has increased, we should see that from our agents, just the normal lag we should see an uptick in agency business in the second quarter, about the same as we see it in the direct. Does that help?

Matthew John Carletti
JMP Securities LLC, Research Division

And it does. And as you -- I guess, a follow-up would be, as you kind of -- well, 8% was kind of the number, let's say, for Q1 for direct. Was it -- did it kind of build throughout the quarter? Was it a particular month that pulled it up? Or just trying to get a little bit more the cadence of it.

Carolyn Jean Monroe
President

Yes. Yes, it definitely would build throughout the quarter. January was pretty quiet month and as every month progressed, and we're seeing sort of the same trend in April.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Wonderful. And then my other question is on General Insurance, just the favorable development in the results. You noted that it was a favorable comp, favorable commercial auto, offset by a little bit of adverse in general liability. Can you put numbers on those or at least orders of magnitude? And then just particularly on the GL, just the particular [accident] years or was pretty well spread out?

Craig Richard Smiddy
President, CEO & Director

Frank, do you want to comment on that?

Francis Joseph Sodaro

Senior VP, CFO & Chief Accounting Officer

Sure. I'll give you -- we'll start with some order of magnitude. The majority of our development this quarter was coming from workers' comp, and it's pretty widespread years. Commercial auto than -- probably our fourth came from commercial auto. That's coming a lot from the -- it's like our years that are coming out of our loss picks, and you're familiar how we -- are held years. So it's those years that are developing favorably the most.

And then GL is an offset about comparable, maybe a little bit more than the commercial auto, was favorable. And that's kind of split into two buckets. About half of it is coming from very old years, just some -- a few programs that have been around for a while.

And then about the other half, coming from the years of about '15 through '21. It's kind of spread out. And I guess what I -- one of the things I'd like to say is this is a very fairly small line for us, and it's written in a lot of our businesses. So it's kind of just scattered. There was no shock of adverse development that was material to any one of our businesses, but it's just a little scattered throughout. So hopefully, that gives you enough color.

Operator

We'll move next to Gregory Peters at Raymond James.

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

So for the first question, I'm going to focus on the top line growth in your General Insurance business. And I think the results in commercial auto and workers' comp are pretty explanatory. But I was looking at some of the smaller segments, and we're seeing some pretty good growth property and general liability.

And then I'm trying to triangulate, Craig, because you said -- you talked about the new business initiatives. So maybe some of those new business initiatives are inside some of these other segments, but I'm just curious about the growth we're seeing in some of those other segments.

Craig Richard Smiddy
President, CEO & Director

Sure, Greg. Well, your inclination is right. As a reminder, we have 4 relatively new underwriting subsidiaries, Old Republic Inland Marine, Old Republic E&S, Old Republic, [Lawyers Professional]and then lastly, Old Republic A&H.

And you're right, we're starting to see premiums come through at a fairly decent clip with Inland marine business and E&S business. And as you point out, a lot of that business is in the property bucket on the supplement and the general liability bucket on the supplement.

So it's safe to say that those new underwriting subsidiaries are contributing to what you're seeing there. And on the other hand, none of those 4 new underwriting subsidiaries are writing workers' compensation. So nothing there is attributable to those entities.

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

Just a point of clarification on that, and thanks for the answer, Craig. Is it your expectation that, that growth of those businesses is going to be accelerating as we move through the year? Or is it just steady-state opportunistic or maybe it's a combination of both?

Craig Richard Smiddy
President, CEO & Director

I would say accelerating is the clear answer. We're in a ramp-up mode in all of those entities. And Inland Marine produced premium last year and produced a profit last year on that underwriting. They are still in a ramp-up mode, but perhaps the incline is a little less than it would be on E&S.

E&S has a steeper incline, and they too produced premium last year, but -- there's a very decent E&S market out there. And our production efforts have been greatly enhanced even in the first quarter and as we move into the second quarter with distribution -- new distribution partners. So that will continue to accelerate.

And then as our lawyers business and A&H business comes in line there, they were the last two, and they're in the very early stages. And therefore, their ramp-up will be fairly steep as we go out through the rest of 2024.

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

Okay. Fair enough. And just a clarification because Inland Marine is a pretty big bucket, lawyers can be a pretty big bucket, A&H. These are very specific targeted niches inside those categories, correct?

Craig Richard Smiddy
President, CEO & Director

They are indeed, Greg, and thank you for pointing that out. Yes, the Inland Marine that we are writing is very targeted with regard to class, geography, size of business and very specialty focused on certain niches within that fairly large bucket of Inland Marine.

And you mentioned [Lawyers Professional] there, too, that's in the marketplace is a fairly large bucket; but for us, is a fairly tight bucket. It is relationships that we are developing with state bar associations, where they sponsor the business.

And most of the business is very sticky for those associations and tends to be smaller accounts with a low number of lawyers within each of those insurance policies. So it's small lawyers through state bar associations on a state-by-state basis, so very targeted.

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

Excellent. So my other area, just giving some attention to the Title business. The revenue is down again. I appreciate Carolyn, your comments about the lag nature of that. You gave us some idea that the expense ratio was -- there was some anomalies going through that.

Is your expectation for this year that the expense ratio for the Title business ex this anomaly that happened, is it going to be in the same range as it sort of was last year? Or has your view on that changed?

Craig Richard Smiddy
President, CEO & Director

Yes. Carolyn, I think Greg's question, it's hard to know what's happening with interest rates and real estate market, especially as we get further out toward the end of the year. But Greg, I think if we answer your question, and I'll let Carolyn do that, assuming that the business would be -- the revenues would be flat with last year, I think, is probably the context in which we should answer that question. And I'll hand it to you, Carolyn.

Carolyn Jean Monroe
President

Yes, that's correct. We are really trying to reach the same combined ratio that we did last year. It's just going to depend on the revenues. We've got our expenses in line. And so we don't feel like -- we just -- we need the revenues to start coming back and at least to what they were last year. And we're kind of a glass half full kind of group. And we -- just sort of the trends we're seeing just right now at the beginning of the year, we really believe we can aim for what we did last year.

Operator

We'll go next to Paul Newsome at Piper Sandler.

Craig Richard Smiddy
President, CEO & Director

Hello, Paul. Are you there?

Operator

Paul, you may have your line muted.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Okay. How about this? The -- I want to talk a little bit about maybe some context with the last quarter with the GL business. It looks a little reserve negativity this quarter. Last quarter, if I recall, it wasn't GL. It was commercial auto, but commercial auto has turned to be a good guy this quarter.

Am I remembering that right? So is that a fair assessment? And I guess, thoughts -- usually you have the sort of quarterly variation, unless it's very small.

Craig Richard Smiddy
President, CEO & Director

Well, let me comment on that and refer back to our comments last quarter. So we were still having favorable reserve development on commercial auto throughout last year. I think what you're referring to that I spoke a little bit about on the last call was that at the end of -- after seeing the end-of-the-year results, we decided that we wanted to move our current accident year loss ratio for commercial auto back to where it was in 2022.

So it didn't deteriorate. As a matter of fact, I think it was still just a few points of percentage better. But we went into the year thinking that it would be a little bit lower. And at the end of the year, we said we're going to go back and for the whole year. Because of our conservative nature, we said, let's set us to where it was back in 2022.

So there -- favorable development is not bouncing around by any stretch. We had favorable development for the last several years on commercial auto because of our conservative approach. And our conservative approach, again, was demonstrated that we got to the end of the accident year, and we said, let's uptick that accident year loss ratio a little bit just to make sure we have that cushion we strive for.

And so that's what happened last year. It wasn't anything unfavorable coming from prior years. There's no favorable development in 1 quarter, unfavorable development in another quarter. It was simply taking -- at the end of the year, we took a little bit more conservative approach that we started the year with on commercial auto, but it was still a loss ratio that was a bit lower than it was in the year before.

So that's what happened. And therefore, when we saw favorable commercial auto come through again this first quarter, that was within our expectations.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And on to the GL, I get it's not a big part of the business. One of the investors I spoke to is quite concerned maybe sort of a relatively fast-growing part of the business and growth has always been [right] -- from our perspective.

Is that really fair to say? Because they don't think of you as a GL company and I think you said it's sort of spread in a lot of different businesses. And is this a priority? Or is it just sort of happening sort of organically because what's going to be in the business?

Craig Richard Smiddy
President, CEO & Director

I understand the question, Paul. And what I would tell you is that the growth you're seeing in GL, I'll tie it back to the comments that I gave to Greg when he asked about that growth. The majority of that is coming from our E&S operation, which is focused on very small policies with very low-hazard general liability type of exposure.

And the other piece I would add is that where we saw the unfavorable development in GL, even though as you point out, it's a small line for us; and if you look at the supplement and you look at the general liability loss ratio and you go back those 5 years that we show there, it's been between 78% and as low as 56%.

But -- so the 74% that we saw this quarter is really almost smack dab in the middle of those last 5 years. So it's nothing. For us, that jumps out. We expect volatility in that line. And where we did take some unfavorable development was from business that has a very different complexion than the business we're writing in the new Old Republic E&S, those older years, our business that looks nothing like the business that we're writing in today and that we're adding.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. And maybe I can squeeze one Title question. The biggest sort of pushback I get on Title is considering that essentially Title Insurance is [eliminated] for refinancing. And any sense of like what that would do to your business? And I don't know if the majority of what you do is not refinancing or is refinancing [or it just] depends. Any thoughts on that?

Craig Richard Smiddy
President, CEO & Director

Yes. I'll kick off, Carolyn, and then you can take it from there. Carolyn, in her opening remarks, touched on and we touched really on three different things that have emerged at the federal level.

And as Carolyn said, we really don't see it materially affecting our business. And I think as you all know, we are very straightforward, and we tell it like it is. And if we were concerned that it was going to have an impact, we would tell you that.

But we have looked at all of those issues very closely as a team, working with American Land Title Association on their views. And at the end of the day, because of different reasons for -- depending on which one of these things you're talking about, it may change who pays for something, but -- whether it's the borrower or the lender.

But we don't see it materially impacting the business because at the end of the day, in order for a lender to sell a mortgage in the secondary market, they're going to need Title Insurance. And Carolyn, I'll turn it to you to add more color, if you can.

Carolyn Jean Monroe
President

Sure. The other thing behind this is no one wants to turn the GSEs into insurance companies, and that's what happens if they don't get Title Insurance. And it's the same with any lender. So that's why we will follow this, and our trade association has been diligent about telling the title story.

Title Insurance is really about preventive, and we do all the work to make sure there isn't a claim. And we just feel like that more education on this should help because this all goes back to affordability, and Title Insurance isn't really what's stopping the affordability right now in homes.

So the last thing you want to do is turn a lender or the GSEs into a Title Insurance company. And that's -- I just don't see that happening. Now the flip side is refinancers are not a large part of Old Republic's business. We have a lot of attorney agents. So while we're concerned, it's always something that we would be able to deal with should it happen.

Operator

And that does conclude our Q&A session. I will now turn the conference back over to management for closing remarks.

Craig Richard Smiddy
President, CEO & Director

Okay. Well, we've started 2024, and we feel we have good momentum in General Insurance. And even though we're cautious about Title because we don't have any way to predict interest rates and real estate markets in the long term, we're hopefully optimistic that things will turn where you think there's pent-up demand. And as Carolyn pointed out, initial indications could be positive.

So we thank you all for your interest and your support and look forward to talking to you again after our second quarter. Thank you very much.

Operator
That does conclude today's conference call, and thank you for your participation. You may now disconnect.