S&P Capital IQ

CONTENTS

RLI Corp. NYSE:RLI

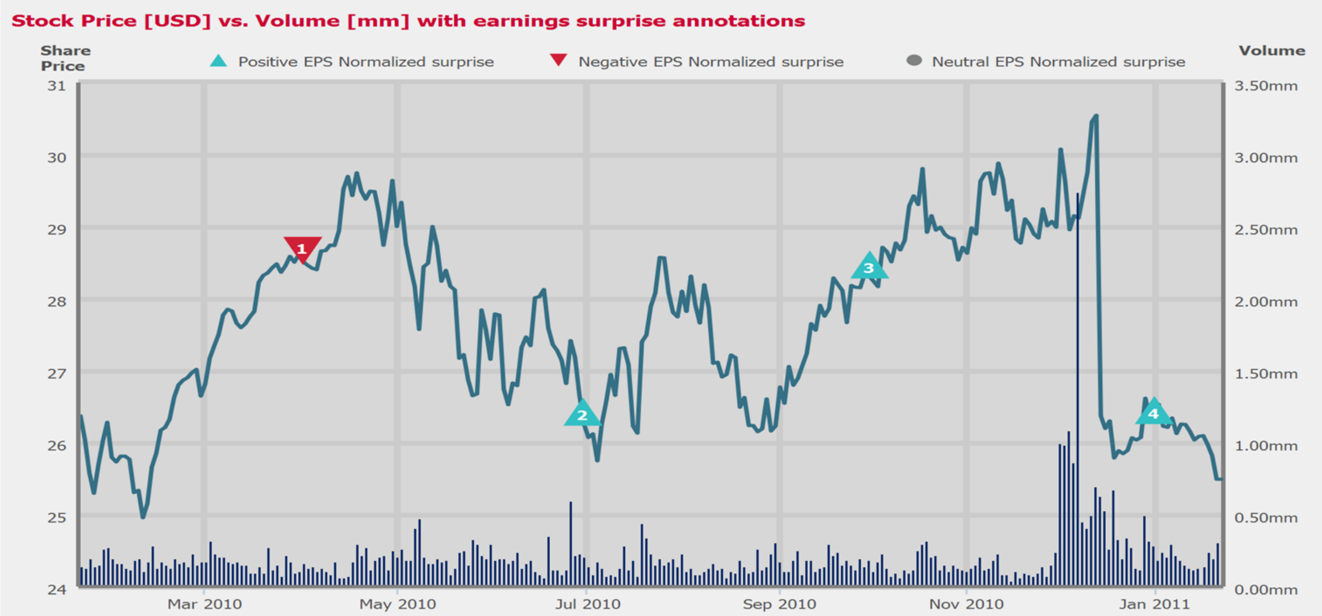
FQ1 2011 Earnings Call Transcripts

Tuesday, April 19, 2011 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.46	0.56	▲21.74	0.53	2.06	2.04
Revenue (mm)	135.35	136.83	▲1.09	143.25	570.30	608.54

Currency: USD
Consensus as of Apr-19-2011 1:58 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.48	0.47	▼(2.08 %)
FQ2 2010	0.51	0.76	▲49.02 %
FQ3 2010	0.48	0.60	▲25.00 %
FQ4 2010	0.49	0.83	▲69.39 %

Call Participants

EXECUTIVES

John E. Robison
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Chairman and Chief Executive Officer

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the RLI Corp. First Quarter Earnings Teleconference. [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 expectations 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, included in 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 first 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.

Again at the request of the company, we will open the conference for questions and answers following the presentation. I will now turn the conference over to RLI's Treasurer and Chief Investment Officer, Mr. John Robison. Please go ahead, sir.

John E. Robison
Former Chief Investment Officer and Treasurer

Thank you, Liza. Thank you and good morning to everyone. Welcome to the RLI Earnings Teleconference for the first quarter of 2011. Joining me for today's call are Jon Michael, President and CEO of RLI Corp; Joe Dondanville, Senior Vice President and Chief Financial Officer; and Mike Stone, President and Chief Operating Officer of RLI Insurance Company.

The format for the call is as follows. I'll give a brief review of the financial highlights and discuss the investment portfolio. Mike Stone will talk about the quarter's operations. Then we'll open the call up to questions, and Jon Michael will finish up with some closing comments.

Our first quarter operating earnings were $1.11 per share versus $0.94 for the same period a year ago. Included in this quarter's earnings are $10.5 million in pretax favorable development and prior year loss reserves, which came from all segments.

The combined ratio for the first quarter was 83.6. Gross written premiums were slightly higher year-over-year at $143 million. While the premiums in our general liability book of business declined, we were able to offset this decline by new product initiatives like Crop and our geographical footprint expansion such as Surety.

Comprehensive earnings were $31.7 million for the quarter or $1.49 per share. We had operating cash flows of nearly $18 million for the quarter. Book value per share increased 3% to $38.94 per share, with shareholder's equity at nearly $820 million.

Turning to the share repurchase program. We have 94.1 million remaining on our share repurchase program, as no shares were purchased in the first quarter. We paid a special dividend of $7 in late December and have been accumulating cash to close on our CBIC [Contractors Bonding Insurance Company] transaction.

We continually review our capital position in relation to our needs and opportunities. Our first choice is to deploy our excess capital. But when we cannot find suitable opportunities to enhance shareholder value, we return it.

Speaking of CBIC, we expect to close this transaction at the end of this month pending final approvals. We're excited to begin the formal integration of this organization into RLI and look forward to welcoming the talented associates and agents to RLI.

Turning to the investment portfolio. As of March 31, our overall allocation was 76% in fixed income, 18% in equities, 6% in short-term investments. The only significant change from year end is our accumulation of cash, once again, that is to support the acquisition of CBIC. The total return on our investment portfolio for the first quarter was 1.6%. The bond portfolio returned 0.8% in the quarter, while equities were up 5.7%. We had no OTTI charges for the quarter. Investment income is down roughly 2% on lower invested assets and a lower reinvestment rate. Our duration is roughly 4.9 and our portfolio quality is AA.

The equity market posted one of the strongest first quarter returns in history. The risk trade was on as equities surged higher in the first quarter, while bonds simply clipped coupons. Inflation expectations have increased over the past few weeks due to rising commodity prices, which were up 10% year-to-date. While excluded from core inflation, higher food and energy prices certainly diminish a consumer's disposable income. This has made for a more volatile interest rate environment, as yields on the 10-year treasury ranged from 3.17% to 3.74% during the quarter.

We still have concerns over the economic recovery. Consumer spending remains weak and housing continues to languish. While we have seen improvement in the unemployment rate, are we really creating jobs or is the labor force declining? Geopolitical fears, as well as the lingering financial crisis in Europe, continue to weigh on investor confidence. In addition, major rating agencies are now taking a hard look at U.S. debt levels and voicing concerns that the plans in Washington appear to be inadequate in addressing the mounting debt levels. The big question that is yet to be answered: can this economy stand on its own after the Fed ends QE2 sometime in June?

On the fixed income side, we continue to look for defensive structures, securities that will offer more protection in a rising rate environment which we believe is coming. On the equity side, we focus on high-quality names that offer yield and lower betas to reduce our overall volatility.

For the operations highlights, I will now turn the call over to Mike Stone. Mike?

Michael J. Stone
Director

Thanks, John. Good morning, everyone. A few market highlights. First, a very good underwriting quarter for us, off to a good 2011. Overall, pricing continues to experience moderate decreases pumping along the bottom frankly. Obviously, significant Property CATs over the last six months, including the significant loss in Japan. Our exposure is around $1 million, we believe, on a lot of our marine business. RMS, the CAT modeling company, made a version change in the quarter, which is roiling the property market, basically the wind changes. Even with the CATs and the RMS version change, little price movement in the Property segment, but it's still very early.

Casualty, no impact from the CATs as it continues to drift downward. Now look at our Casualty segment, we are down 4% in the quarter. Rates are pretty flat overall. We are giving up market share as we bide our time and work diligently on selection at this stage in the market. New products, specifically design professionals, grew some $2 million, which in a quarter helping to offset the decline in our General Liability and our Executive Products product lines. We continue to add product. We added an inter-motorists segment to our product in the quarter. We're rolling out our Pro Pack and Pro Comp in our design professionals. And we continue to look to build out our product portfolio.

Our construction activity, still dormant, but we are seeing some signs of improvement. And certainly, CBIC when we get it closed, should be a shot in the arm particularly with our packaged products. Optimistic that Casualty rates will not decrease significantly going forward. As I said, I think we are bumping along the bottom, waiting for some form of catalyst.

Property segment, gross written premium up 12%, rates flat to down just a small percentage. The CAT rate's mixed, winds probably up a little bit and earthquake down a little bit. Marine business up 15% in the quarter. Our reunderwriting of that space is complete, trajectory is good, still work to do, but promising outlook.

Our home office reinsurance initiative's up 22% in the quarter, that includes our crop business and some assumed treaty business. As I mentioned earlier about $1 million in marine losses from Japan, only product line reporting or expecting any loss from the foreign CATs. Expect some moderate loss from the North Carolina tornadoes. It's a second quarter event, but it would be a fairly small loss for us.

And the version change on the CAT model, Florida winds up 50-plus percent for the market. But the market is showing some signs of price movement. But like I said, it is still early.

In our Surety business, gross written premium’s up 2%. Rate's flat. Experience continues to be better than expected. And there has been no adverse development in the contract segment from the economic slowdown, but we continue to be vigilant here. Certainly, Surety is looking forward to the integration of the CBIC Surety business, which hopefully will begin here early in the second quarter.

Overall, good underwriting quarter. Underwriters being appropriately selective as we continue to scour for the better opportunities. Standard volumes companies still aggressive. Construction activity, still moribund but seeing some life in New England and Texas, but Florida and California very weak. Property, improving, considerable activity with the CATs and the end-of-the-year model changes.

Our mix continues to shift from Casualty. Right now, our Casualty business is about 45% of our business, Property's 40% and Surety is 15%. Compare that to 2005 when our Casualty business was 70%, Property 20% and Surety 10%. Overall, our business model is built to flex as needed, and we continue to build on our product portfolio. Unlike some others, we're not waiting for a turn, but continue to find and look for good opportunities. And I think you'll see by our revenue our gross written premium performance in the quarter, that we are doing pretty well given the state of the market. That's all.

Jonathan E. Michael
Chairman and Chief Executive Officer
Thank you, Mike. I'd like to open the call up for questions now.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Doug Mewhirter with RBC Capital Markets.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

I just had two questions. The first, taking a look at your, for the quarter, your accident year loss ratios have actually showed some improvement in most of your lines. Not a huge improvement, but still considering where the pricing trends are going, that was, I guess, a pleasant surprise. And I think it may have been the case in the fourth quarter as well. Can you, I guess, explain sort of how it's developed? Is it solely due to, I guess, better underwriting decisions? Is some of it business mix? And it sounds like maybe, especially in the longer-tailed lines, any kind of shift in actuarial assumptions where you say well, loss experience continues to be so good that we can't -- we've been overly conservative on past loss picks, maybe we kind of have to back off a little bit on our current loss picks just because of big picture actuarial trends. It's a complicated question, but just see if you could give me some help on that.

Jonathan E. Michael
Chairman and Chief Executive Officer

It's Jon Michael. It's all of the above. All of that goes into the loss picks. And our experience as it develops influences the loss picks. Probably the biggest influencer though is the mix of business that we have. So it's all of the above. And I couldn't tell you the degree to which all of those influence our current action here, but a lot of it is the mix of business.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

Okay. And I'd had a -- thanks for that answer. My follow-up question is regarding earthquakes. Obviously, they've been in the news and we've heard in the media and anecdotal accounts of a lot more, I'd just say submission activity in California. People are waking up to the fact that they're not covered for earthquakes and they just saw a $100 billion event in Japan. Are you really seeing that and is that -- at the same time, you said that the rates are about flat, maybe down a bit. I mean are you seeing this increase in submissions or the increase in demand? And do you think it would appreciably influence pricing in that line?

Michael J. Stone
Director

Yes. It's Mike Stone. Certainly, it's early from a pricing perspective. But yes, we are seeing increased submission activity. I think you're right, I think people are -- understand that there's a possibility of earthquakes in California. So we would expect the demand to increase. But what we are also saying is, when they see what the price is, they're not buying. So we're not seeing a whole lot of increased premium as a result. I do think rates will go up as the year progresses, as people better understand the catastrophe risk associated with the earthquake and also the increased activity. So yes, increased submission right now, but not a whole lot of additional premium because people are, again, don't like the price.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

Okay. Thanks. That's all my questions.

Operator

Up next, we'll go to Ken Billingsley, BGB Securities.

Kenneth G. Billingsley

BGB Securities, Inc., Research Division

On the retention standpoint, I was looking at -- obviously, I'm talking about from gross premiums versus net premiums written. It looks like the retentions are up. Is that going to be a trend that we're likely going to see as potentially reinsurance costs rise? Is that something that it's a strategy because of the market itself or opportunities that you see in the mix of your business?

Jonathan E. Michael
Chairman and Chief Executive Officer

Ken, thanks for the question. It's in part the latter, the opportunity on the Property side, the growth in Marine and growth on the Crop business and the Property Treaty business are lines in which we have larger retentions on. Surety, I think, what you see there is just improved reinsurance costs on our part. And then Casualty, it's primarily mix, and that's pretty flat. So mix is changing that.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

And what type of impact do you see on your book based on, obviously, the market trends and that this was more of a -- maybe more of a reinsurance event, a lot of these CATs, as opposed to domestic here impact. What kind of impact do you see that being on future reinsurance rates for your business, even in non-Property areas?

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

Well, majority of our reinsurance is renewed 1-1. And so we would see I think a fairly consistent reinsurance cost throughout 2011, as our treaties renewed at or slightly favorable results as of 1-1.

Michael J. Stone
Director

So, Ken, this is Mike Stone just to amplify that. I do believe reinsurance rates are going to go up. I think that we are fortunate that we renewed our Property treaties at 1-1. I suspect that the 6-1s and the 7-1s, they're going to see some rate increase. If we don't, we're really in a crazy business.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

Very good. And then from a competition standpoint, I know you gave some color on rates and where you’re seeing some of the direction there. Can you talk about the impact of renewal business versus new business and the competition for that? And obviously you are letting some business go on including Casualty lines. But can you just talk about what you're seeing competition between renewal and new business? And whether it's pricing-specific or coverage-related?

Michael J. Stone
Director

It's Mike Stone. It's mostly pricing, Ken. I think what we see, continue to see, is by and large, the competition is the standard lines companies are taking a bigger hunk of the specialty space, packaging up business that wasn't packaged before. Oftentimes, our broker's not even seeing the business. That doesn't get away from the independent agents or the big brokers. So it's price, it's standard lines companies. I think by and large, in us, some specialty space is fairly disciplined here. So until we see some change from that and some increased economic activity, it's hard to see a lot of market movement.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

So in your case, so does not leave in the independent, it's even hard to even quote on some of that renewal business, you’re not even getting a shot at some of it?

Michael J. Stone
Director

Some of it, we don't get a shot at. Obviously the renewal business is stuff that we find awful hard to keep because we know it better. It's in season to some degree. New business is more difficult. And I think if you listen to the brokers, certainly the wholesalers and the specialty brokers, they are struggling as is the specialty market space.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

And then on that renewal business, are you – and I don't want to put words in your mouth, but in some cases, we've heard that in the past few quarters, that renewal business has been – there's been some success in pushing some rate increases or holding the line there, where it wasn't necessarily with new. Are you having that same experience? Or are you -- your model a little different?

Michael J. Stone
Director

Well I'm more than happy for you to put words in my mouth if it means rates are going up. I think by and large that we're getting a little rate in various segments of our business. Certainly we've lost share. Some of that's because we have pushed price. So I think we're seeing a little opportunity in some spots.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

Great. Last question on the reserve releases, can you -- where were, what years were some of the bulk of those reserve releases coming from?

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

Ken, it's Joe Dondanville. On the Casualty side, the bulk was 2006 to 2009. On the Property side, we had some Marine 2005 to 2009 and Crop is 2010. And then Surety is 2008 to 2010. So it's more of the past 3 to 5 years.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

But on the Casualty side, the longer-tailed stuff, that's -- not much is coming out of 2010 already. It's mostly '06 and '09?

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

Right. Yes.

Kenneth G. Billingsley
BGB Securities, Inc., Research Division

Great. Well, congratulations on the quarter. Thanks for taking my questions.

Operator

Our next question today comes from Vincent DeAugustino, Stifel, Nicolaus.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Just two quick questions. In terms of the expense ratio, is there any detail that you could provide in terms of what's driving that a few points higher than recent quarters? And I guess if there's any sort of seasonality that we should bake into our expectations? I guess it was more in line with 1Q '10. Thanks.

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

Expense ratio. The expense ratio is, in part, a driven base off of overall results. And as the results improved in the first quarter of this year, we see higher bonus accruals as well as retirement and profit-sharing accruals. And the other components in this particular quarter has to do with costs associated with the CBIC transaction in trying to bring it to head, get all the appropriate approvals. And that was about a $300,000 impact to the first quarter.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Great. And then I guess for Jon, looking at the equity portfolio. If I'm doing the math right, it looks like ROI sold about $5 million in equity, since the equity portfolio was up about $5.7 million but the balance sheet's only showing about 4.1% increase. Is there anything in your outlook that has changed? Since I think the commentary last quarter indicated a little bit more bullishness in terms of reaching the 20% equity mix target? Or is it just that the dividends aren't necessarily being reinvested in equities?

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes. Right now, we’ve kind of changed our outlook a little bit over the last 3 months with some of the activity we're seeing in the economic news. You’ve even seen a lot of economists reduce their GDP forecast from 4% in the first quarter to 2%, given some of the economic data that's come in from housing to durable goods, et cetera. So we still target 20% over the long run. We haven't reinvested our dividends as of late because we're raising money again to acquire CBIC. But 20% is our long-term outlook. And that will fluctuate quarter-to-quarter, depending on market activity and what we have going on from an insurance operations side.

Operator

Our next question today comes from Dean Evans, KBW.

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

Yes, thanks, guys. I was first wondering if you could maybe sort of revisit CBIC a bit. I know you've given some color on previous conference calls. I was wondering if we can kind of get an update of what your thoughts are and you're doing a graded [ph] going forward? What we can expect to see, sort of how it breaks out by segment? How to think about modeling I guess in your current segments? Any sort of additional color you could help us with there?

Michael J. Stone
Director

Well, it's Mike Stone. Hopefully, we'll get this thing closed in the next few weeks. Their business, they're a good underwriting company like we are. The Casualty business, the Package business, which basically Casualty is declining as you would expect. Surety business is holding up pretty good. So I think the historical stuff on CBIC is fairly accurate going forward. I mean probably a little decline in their premium by the time we get a hold of it, but -- so I think that's it.

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

And it's about half and half between Surety and Casualty, if I remember correctly?

Michael J. Stone
Director

Yes, roughly.

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

Okay. Sort of moving on to a different area, the Property growth. I know one area you'd mention was Marine. Anything else that we're seeing in there? Any new products or sort of what's driving that segment other than, I guess, what you mentioned?

Michael J. Stone
Director

Well, we have some Crop in there, a little bit of growth there. We have our reinsurance operation, a little growth there, both the facultative side and soon some treaty business. That's basically what's driving that. But E&S Property's about flat, so that's the big product in that space.

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

Okay. And I guess lastly, if I could real quick. I know you sort of hit on it in the beginning that your preference is to deploy capital into the business. Given the opportunities you see today, could you sort of refresh us with your thoughts on repurchases or capital management, particularly with the current valuation of the shares?

Jonathan E. Michael
Chairman and Chief Executive Officer

Yes, we've paid that $7 dividend at the end of the year. We did not repurchase any shares during the first quarter, as we were holding cash for the CBI acquisition. Our position is still that we would rather use the capital in the business and deploy it ourselves. Short of that, we will return it to the shareholders. I won't give an opinion on relative positioning or returning of our capital at 1.5x book versus book value or below. But certainly we'll return it if we don't need it. But it is what it is.

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

Okay. Thanks very much. Appreciate the color.

Operator

Next up, we'll hear from Bijan Moazami, FBR Capital Markets.

[Technical Difficulty]

Hearing no response, we'll take our next question from Vinay Misquith, Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Just wanted some color on competitive landscape. Just looking at this quarter, maybe versus the last quarter. Has there been some sort of leveling off of the competitive dynamic?

Michael J. Stone
Director

It's Mike Stone. Yes, I mean if -- the rate competition is probably less than it was last quarter. It's still not improving. So that being the proxy for competitive dynamics, yes, it's probably a little less competitive today than it was last quarter. But it's still competitive.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Right. Fair enough. And why do you think it's getting less competitive? Are the cash flows getting worse than they were before? Or are loss cost trend -- because loss cost trends seem to be pretty favorable. So just trying to get a sense for why this is happening.

Michael J. Stone
Director

Well, I think that we're in the, what, the sixth year of a softening market. While, you're right, loss trends are more favorable than they have been, it's still given up a lot of rate over the last 5 or 6 years. At some point, people start saying, I'm not sure we can keep doing this. And you also see that there's a number of companies that have added to their reserves. And you also see that Property losses have been pretty fairly significant over the last couple of quarters. So I think those dynamics weigh into the overall spiky of the market and the competition. So I'm not surprised that things are bumping along at bottom right now, less competitive than it was last quarter. But we'll see. We'll see which direction it goes.

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

The other thing that fourth quarter tends to be more competitive than the first 3 quarters do. So we had a bit of a bounce in the first quarter in terms of less competition, probably doesn't mean all that much in the scheme of things. It is still very competitive.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Sure. Fair enough. And on the CAT exposed Property, I believe you said that it's too early to tell about what's going to happen. But what are the discussions that you're having with your clients or brokers in terms of pricing on CAT exposed Property?

Jonathan E. Michael
Chairman and Chief Executive Officer

We're talking about raising them. We are – have to watch our overall exposure. When you have those kind of events, you have to reevaluate your positions. When you have a catastrophe model change of this significance, you have to look at your overall tolerances. And certainly if we can't get price, then we'll have to – and we’re going to reduce our exposure one way or the other, but we're going to get some price in the process. And I think the market will allow that going forward, given what's going on. So those are the discussions. Whether it holds or not, obviously we can't make the market ourselves. We'll see. Again like I said earlier, if you can't get price after all of this, this business is even crazier than I thought it was.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Some have argued that the economic conditions are not that great. And so it's difficult to put through small rate increases. Have you got some sort of pushback? What sort of reception are you getting from your clients in terms of rate?

Jonathan E. Michael
Chairman and Chief Executive Officer

Well, I mean, they don't like it. The brokers are pushing the other way. And what's our combined ratio for the quarter? I mean again, people look at that and say, well, you don't need more rate. So it's that kind of discussion, and that's what's going on right now. There's no clear direction on which way it will end up. But certainly given what we see, what it looks like, exposures have increased. We believe that we need to get paid for that exposure. And I think the market, the brokers and the customers are pushing back on -- because results have been pretty good.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Right, and just one last follow-up. You mentioned something about California and people sort of maybe seeking some more insurance and not buying some because of rate. Do you get a sense that your clients in general are more attuned to the catastrophe environment and, therefore, looking maybe on the margin to buy more? Or are they quite happy to sort of sit on the sidelines, saying that the economy is weak and we'd rather not spend more money on insurance?

Jonathan E. Michael
Chairman and Chief Executive Officer

Again, I don't think there is one answer to that. I think that depends on the customer. But certainly, there is more interest in Catastrophe exposed business, given what we have witnessed over the last couple of quarters. Some are buying and some aren't. And some recoil from the price and some don't. So again, I don't think there's any clear direction at this stage. I think it's, like I said, I think it's trying to find a spot.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Okay, that's good. Thank you very much for answers.

Operator

[Operator Instructions] Up next, we'll go to Ron Bobmin [ph] of Capital Returns.

Unknown Analyst

Couple of questions. With respect to your Crop business, and I think it's in some respects, structured as a reinsurance transaction. But really my question is, any thoughts to hedging some of the added risk associated with the fact that we're starting out the crop measurement season with such high commodity prices, as far as the, I guess, going in sort of referenced price levels? That was my first question.

Joseph E. Dondanville
Former Chief Financial Officer, Senior Vice President and Principal Accounting Officer

This is Joe Dondanville. We've looked at the possibility of hedging in the past. And we think that the underlying economics associated with crop prices right now, it bodes well for continued higher crop prices. Inventories to start the year are low. So unless there is some significant overplanning that would take place, we don't see that as a need at this point based on the size of our exposure.

Unknown Analyst

Okay, thanks. Then my second question is -- I forgot which of you made the comment as far as talking about the pricing cycle and where we are and what's going on with pricing. And I think someone said from RLI on today's call that we're sort of waiting for, I guess, another catalyst or a catalyst for a change to occur and I guess these thing bouncing across the bottom. And I'm wondering, is it possible that in effect that catalyst has already occurred, but it just takes time in effect for the declines to cease occurring followed by the flat period of bouncing across the bottom? And then like you said, the market will allow you, you believe -- your customers will allow you to sort of get some rate increases and that we're just into that continuum and that really isn't necessarily a catalyst in a traditional sense as far as seeing something in the newspaper or a company folding or something along those lines? Thanks.

Michael J. Stone
Director

Yes, I'll try that one. It's Mike Stone again. I think, well, you're kind of analogizing the industry as a punch drunk fighter, and we can't wake up yet from the last punch. When we do, we'll raise rates. I guess that's possible. Certainly, we haven't seen any dramatic swing from the events that have already occurred. And I do believe that pricing rates are bumping along the bottom, although I'm also a believer that they don't stay in stasis, it moves one direction or the other. And I would suspect that the next move will be up. But I think other industry experts -- I shouldn't say other, I don't include myself in there. So industry experts have been predicting a change for a while, and they have proven wrong each time. But I do believe that

that's why I say we're looking for a catalyst, we’re looking for something but also you have to balance that against results have been pretty good. And until some of the standard lines companies, some of the major players start seeing unfavorable results, it's hard to see prices swinging dramatically to the upside.

Operator

And we'll take the next question from Bijan Moazami.

Bijan Moazami
FBR Capital Markets & Co., Research Division

Most of my questions were asked and answered, but a couple of items. First of all, if you see a dramatic increase in your reinsurance prices on 1-1, how quickly can you transfer these prices to your primary layers?

Michael J. Stone
Director

It's Mike Stone. We can move pretty quickly. I mean we quote business out 60 days. But it shortens when there are fairly dramatic changes, and we'll shorten that up pretty quickly. So we can...

Bijan Moazami
FBR Capital Markets & Co., Research Division

Are you going to try to move the prices up before your insurance renewal comes due?

Michael J. Stone
Director

Bijan, we're always trying. And we've just been fairly unsuccessful over the last few years. Certainly, we are going to push CAT rates starting now. And on our Casualty business, it's been fairly soft. We've given up quite a bit of share because we're trying to hold on to rate. We will continue to do that. We want to be in good shape when there is a swing, we want our products positioned to be able to move fairly nimbly when there is a change. Like I said, everybody sitting's around waiting for a change. Change doesn't happen because everybody’s ready. Somebody has to get hurt, and that hasn't happened yet.

Bijan Moazami
FBR Capital Markets & Co., Research Division

Okay. Mike, could you comment a little bit on the terms and conditions on your Casualty business? How was it in 2010? How is it right now in 2011? Are you seeing a lot of changes in that going forward? Because nobody's talking about terms and conditions anymore.

Michael J. Stone
Director

Bijan, I think the big change in terms and conditions really comes from the fact that a lot of the businesses in the standard lines space were -- they don't have -- they're fairly set. They don't have all the exclusions that we might have. They might not have the limitations that we might have in our products, because they are admitted products. But other than that, I don't see at least in our competitive environment with other specialty and surplus-science companies, I don't see a lot of terms and conditions changing. In Property, maybe deductibles are not as high as they were 4 or 5 years ago. But they really -- we don't see that deteriorating like you had in prior soft markets. So all in all, I think the bigger, when you look at terms and conditions, you got to look at the business in the standard line space versus what's in our space. That's a good change.

Bijan Moazami
FBR Capital Markets & Co., Research Division

Great. Thank you.

Operator

[Operator Instructions] And we will take a follow-up from Vincent DeAugustino.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Thanks. Just curious, sorry if I missed it. How much did new products contribute to gross written premium in the quarter?

Jonathan E. Michael
Chairman and Chief Executive Officer

That's Jon Michael here. It was about $20 million of the premium for the quarter.

Vincent M. DeAugustino
Stifel, Nicolaus & Company, Incorporated, Research Division

Then just one follow-up. Anything on the horizon in terms of Crop insurance legislation coming from the government that could impact the ProAg business?

Jonathan E. Michael
Chairman and Chief Executive Officer

Well, certainly with the government particularly in today's environment, anything could happen. But there's nothing on the horizon that would say that they're going to make a significant change to the Crop program.

Operator

And everyone, at this time, there are no further questions. I'll turn the conference back over to our speakers for any additional or closing remarks.

Jonathan E. Michael
Chairman and Chief Executive Officer

Thank you. It's Jon Michael. We had a really good quarter. We are proud of our people, our underwriters and everybody. Our producers. Mike indicated the market continues to be soft for our business as capital remains at a very high level, in spite of the numerous CAT events that we have worldwide. Mike talked a little bit about expectations for what the change to one of the leading modelers RMF has made, particularly with respect to Wind business. It did have a surprising impact, I think, on companies' loss expectations in the event of a Southeast wind or Southwest windstorm. So we think that, that's going to have some impact on reinsurance rates in the future and ultimately primary rates as companies pull that into their modeling and their underwriting. As the previous question, where Ron asked about new products, we're proud that $20 million of the $143 million of premium that we produced during the quarter was from new products. And we'll continue to look for those new opportunities.

We are excited about the CBIC acquisition and look forward to getting that transaction closed. We are really looking forward to working with CBIC's customers, their producers and all the CBIC employees as we move forward through the rest of the year and the integration process.

We do remain well positioned, continue to perform well in spite of a soft insurance market and a troubled economy in the U.S. and worldwide. I'll tell you, we'll remain disciplined as always. And look forward to talking to you all again next quarter. Thank you very much.

Operator
And ladies and gentlemen, that does conclude today's conference. Thank you all for your participation.