Atlas Financial Holdings
(NASDAQ:AFH)
2018 First Quarter Financial Results Conference Call Transcript
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Operator

Greetings and welcome to the Atlas Financial Holdings 2018 First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Scott Wollney, Chief Executive Officer. Thank you, you may begin.

Scott Wollney

Thank you very much, Mitchell and good morning, everyone. With me today is Paul Romano, our Vice President and Chief Financial Officer. We are very pleased to report profitable growth and underwriting performance in the first quarter, highlighted by a strong combined ratio and continued above average return on equity and both value appreciation.

I will turn it over to Paul to provide detail about our materials and review our policies regarding forward-looking statements.

Paul Romano

Thank you, Scott and good morning everyone. Yesterday, after market closed, Atlas issued its First Quarter 2018 Financial Results. Copies of this press release are available at the Investor Relations section at the company’s website at www.atlas-fin.com.

On this call, Atlas may make forward-looking statements regarding the company, its subsidiaries and businesses. Such statements are based on the current expectations of the management of each entity. The words anticipate, expect, believe, may, should, estimate, project, outlook, forecast or similar words are used to identify such forward-looking information. The forward-looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies, including risks regarding the insurance industry, economic factors and the equity markets generally; and the risk factors discussed in the Risk Factors section of its Form 10-K for the year ended December 31, 2017. No forward-looking statement can be guaranteed. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and the company and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

When discussing our business operations, we may use certain terms of ours which are not defined under U.S. GAAP. In the event of any unintentional difference between the presentation materials and our GAAP results, investors should rely on the financial information in our public filings. All amounts discussed on this call are in U.S. dollars unless otherwise indicated. We will be utilizing a **slides**how presentation in conjunction with this call. Though we may address a few **slides** specifically in general, who use this as an accompaniment. Feel free to follow along as we will follow the basic structure of this document. This presentation is available on our website's Investor Relations section and then under the Earnings Release Info Selection. For those of you following along with our presentation, we will begin on Slide 3.

With that, I would now like to turn the call back to Scott.

Scott Wollney

Thanks, Paul. We had a solid start in 2018. Net income was generated by operating rating results in line with our expectations. Importantly, claim activities in the quarter also fell in line with our expectation, which I will detail later on the call. Especially giving the meaningful rate activity we implemented in recent quarters, we are happy with our revenue growth which reflected higher average premiums per insured vehicle and continuing signs of effective relative risk selection.

Key elements for financial results for the quarter is highlighted on Slide 3, included strong combined ratio based on our measured approach to new business ridings, improved net income per share, and an annualized return and equity of 24.3%.

Net income after tax was $5.5 million or $0.45 per diluted common share. This compares with $4.9 million or $0.40 in last year's first quarter. We are monitoring loss development closely and are pleased to confirm that results in the First Quarter were consistent with the expectations we shared on our last call.

Book value for diluted common share for Atlas as of March 31, 2018, is $7.62 compared with $7.42 as of December 31, 2017 and $10.99 as of March 31, 2017.

Paul will provide more detail on our financial results in a few minutes.

Atlas has a longstanding focus on delivering a strong value proposition as a highly specialized rider of commercial auto insurance products to the dynamic niche market of people using light vehicles to move people around. We have continued to see a market shift from more traditional taxi business over to livery and limo in paratransit.

Additionally, the total addressable market has continued to grow as a $2-2 1/2 billion subsector within the broader range of the commercial auto insurance market. We have also seen a trend towards a greater proportion of non-owner operators which is positive from our underwriting perspective. To the extent that part-time transportation network and other gig economies drivers increasingly purchase commercial insurance. The size of our market could increase by as much as an additional $500 million to $1 billion.

We have built a competitive advantage through the evolution of our existing infrastructure that provides localized and more effective customer care, with the benefit of a larger integrated national platform. We also have integrated the use of technology and analytics throughout our business which we believe will help to properly asses price risk across all geographies. We are also helping us to identify and impact loss chance as quickly as possible.

As discussed on past calls, all of our prior year claims are now running through our proprietary predictive model and provide additional data regarding results in this area later in the call.

The heritage of the companies we have acquired over the years serves as the basis for the strong value proposition and comparative advantages we deliver to our customers and business partners. Our use of analytics and technology help us amplify its value to all stake holders. Initially our focus might come as an operational activities and later in the call, I will provide claim and reserve related detail and share expectations for the future.

We will take a few moments and breakdown our business next is summarize in 4 and 5.

Overall trends within our niche market remained fairly consistent. Taxi has been relatively flat as an addressable market but is more price sensitive than other segments. Livery and paratransit continue to grow in overall size driven by more owner operators entering the space.

We continue to take advantage of the hard market with increase in rate across our book of business. Our Limo and Livery, and paratransit business has reported a higher average premium per vehicle, increasing on a quarter over quarter basis. All taxi premium per vehicle declined slightly due to higher retention and better than average accounts.

More challenged taxi accounts tended to non-renew in the face of rate increases. We continue to see an expanding underlying addressable market and remained focused on profitability to grow on market share within our niche.

On Slide 5, you can see the transition in our business. Over the past few years, we have worked within a unique market that has seen a shift from more traditional taxi business delivery drivers including commercially licensed operators dispatched in whole or in part to transportation network companies. At this stage limo and livery is over 50% of our business and a growing paratransit segment remains approximately 35% of our book.

We navigated this shift in market dynamics in a strategic manner consistent with our underwriting goals over the long term. We have been patient and thorough to ensure that the business we write in this evolving environment meets our underwriting criteria. We are finding that initiatives we pursued over the past few years relative to in-vehicle technology are having a significant impact as well.

We believe that Atlas has the most comprehensive perspective on the risks facing our market. One of our tangible advantages throughout the evolution of our business has been Atlas' ability to utilize the data and expertise aggregated over the years within the specific niche market.

This resource is a hard to replicate asset that can only be developed over time. We are focused on not compromising our underwriting criteria to chase business and are adhering to analytics models and claims expertise to achieve the bottom line targets we set and intend to prove to the market.

In total, Atlas' gross return premiums in the quarter were 95.6 million, a decrease compared to 98.5 million in the prior period. This reduction included the nonrenewal of the multimillion dollar Illinois account that no longer fit our underwriting criteria. This type of large account is the exception with the majority of our business being made up of owner operators in small fleets.

It is important to keep in mind the fact that there is some seasonality in our written premiums in many Illinois and New York-based operators insurance programs renew in the first quarter. We continue to examine each renewal under our model to ensure that the premium is sufficient for the risk in each geographic region. The remaining quarters of the year, we currently expect gross written premium increases on a year-over-year basis.

Moving on to Slide 6, you can see the diverse geographic breakdown where we are currently writing. We grew well in states such as New Jersey, Minnesota, and Virginia, but has continued to be selected in our new business writings to reach our underwriting criteria and increased rate as needed. Our three largest states in which we write business from a New York, California, and Illinois. We expect premium fluctuations geographically as we react to changing market conditions.

Nationwide our market share is estimated at approximately 12% to 13% with proportionate share forecasted 20%. A key element of Atlas' strategy is continuing to grow our traditional niche market based on our strong value proposition where pricing conditions remain favorable. The niche Atlas' addresses is approximately $2-2 1/2 billion of the broader 35 billion in annual commercial auto premium in the U.S. and growing. To be clear this figure includes only full-time professional taxi, limo, livery, and paratransit drivers.

Moving to the next slide, we have included the fourth quarter CIAD pricing data. We expect to have the Q1 shortly CIAD, however based on our own research we anticipate a continuation of the hardening of rate observed in recent quarters and specific hardening in our niche market. There are no signs of price aggressive new entrants in our space.

As you can see on Slide 8, new business quote levels are strong as are the ratios. Where volumes will fluctuate on a weekly basis, you can see the longer-term trend on new submissions is moving up gradually over time where the ratios remain stable.

Broader commercial auto is now seeing significant rate being pushed in the market, largely due to an elevated loss pattern recognized for older [ph] years. We have been taking advantage of favorable pricing trends in virtually all of our markets. All data from this source has not been updated since her last call. Indications from other large commercial auto insurance thus far in earnings season reinforces the view that the market will continue to harden.

Atlas is continuing to target a better than 60% loss ratio, but plan to take an appropriately conservative approach to current year loss selections.

Slide 10 demonstrates that we have sequentially increased base rate levels above the industry as represented by ISO rates. As you can see, rate change in recent quarters is near the highest levels we have seen since the market began for me in 2012. Furthermore, predictive analytics is resulting in a strong bias towards accounts expected to deliver better margins as shown in the chart in the lower right side of the page.

While we did strengthen reserves for prior period the year end, our expectation is that the full year of 2018 loss and [ph] ratio should reflect the positive impacts of more recent initiatives involved within the range of 60% to

62% indicated on our last call on a full-year basis. We are confident in our more recent years results and believe they reflect a relative value of a specialized focus in the earnings that they can generate.

As shown in Slide 11, our total imports premium is nearly 275 million and while we do not position our business to grow the top line as a priority, we are on track to reach 300 million or more for 2018. We are wholly focused on maximizing our return on deploy capital while maintaining the proper amounts of operating leverage.

The financial tools we put in place including our quota share reinsurance program enable us to do this at an attractive cost without creating the need to externally raise capital. As always, we continue to evaluate capital structure on an ongoing basis and believe that reinsurance solutions offer uniquely valuable opportunities given current market conditions.

Seasonality will have an impact in terms of written premium in any given quarter. Although this has been and should continue to flatten as our book becomes more diversified. Maximizing return on deploy capital is at the foundation of our business model and as a result we plan to grow and shrink our business by geographic market based on loss trends and changes in each competitive environment.

I will now turn the call back over to Paul. After his review of our financial results, I will provide more detail regarding claims and reserve related activities with the objective of sharing additional data for investors with as much transparency around our claims processes as possible. Later this month we will hold an investor day in which that will be the primary focus. I'll also share some additional observations regarding our expectations for the future.

Paul Romano

Thanks Scott. As always I encourage you to review our filings, our slide presentation, and to reach out to scatter myself with any questions. Slide 12 provide key financial highlights. For the First Quarter 2018, gross premiums written decreased by 3% to $95.6 million compared to 98.59 for the three-month period ended March 31, 2017.

As previously mentioned, the decrease was primarily due to the nonrenewal of a large Illinois tax taxi fleet based on our discipline underwriting practices. The first quarter generally has the highest proportion of tax-related business written and given the fact that this segment is relatively flat and also more price-sensitive. Our expectations for year-over-year growth in this quarter were modest.

In March 31, 2018, enforce premiums increased 7.4% to $274.6 million compared to 268.5 million in the corresponding period. Net income for the first quarter 2018 was $5.5 million or $0.45 earnings per common share diluted, compared to 4.9 million or $0.40 per diluted share in the prior year quarter.

Annualized return on equity was 24.3% in the first quarter 2018 compared to 14.9 in the prior year quarter.

As shown on Slide 13, in March 31, 2018 our operating leverage is measured by net written premium to combine statutory surplus was roughly 2.3 to 1 as indicated in the top chart. Managing our operating leverage is important from both regulatory and rating agency perspectives.

During the first quarter 2018, our quarter share session rates were 5% and 25% of subject written premium for the ASI full companies and for Global liberty respectively. Effective April 1, 2018, the session rates for the ASI pool was increased to 30% and is consistent with the guidance we provided our last earnings call.

The session rates for Global Liberty will remain under unchanged at 25%.

Slide 14 brings us the key components of our combined ratio after accounting for the effects of reinsurance. Atlas' combined ratio increase for the three-month period ended March 31, 2018 to 89.3% compared to 86.9% in the prior year period.

The loss ratio related to claims incurred for the three-month period ended March 31, 2018 was 62.7% compared to 60.5 for the three-month period ended March 31, 2017. The loss ratio increased over the prior year period primarily because of the company's continued review of underwriting profitability by state and product and higher-than-expected claim cost associated with Atlas' participation in nonvoluntary pools.

The underwriting expense ratio for the three-month period ended March 31, 2018 was 26.6% compared to 26.4% for the three-month period ended March 31, 2017. The ratio included $520,000 benefit from the stock purchase agreement which is the final adjustment related with the Global Liberty acquisition, and actual payment timing of expenses versus Q1 of 2017.

Slide 15 provides an overview of the key components of a combined ratio over time. As always, we encourage users to look at this ratios on an annualized basis rather than focus on change from quarter to quarter. As there are a number of factors that can impact the shorter-term view.

Slide 16 and 17 provide an overview of the overall balance sheet strength and our cash and invested assets. We have always maintained the view of a conservative investment for [ph] its importance. Our primary investment objective is to protect capital and support underwriting operations. The clearance is seen on Slide 17 while the majority of our 240 million of cash and invested assets are publicly traded high-quality fixed income securities.

We do have approximately $30 million of other-than-fixed-income investments or OTFI. Half of these OTIFs are private commercial real estate backed investments. The remainder are a combination of investments deemed appropriately conservative by our investment committee.

All of these investments are audited annually and qualify as limited assets from an insurance regulatory standpoint. We do not have concerns about the value of any of these investments; however, based on our current book value, we have made a decision to reduce the percentage of OTFIs during the year. In the first quarter 2018, these investments were reduced by $1.4 million.

On Slide 18 we walked through the changes affecting book value per share in the quarter. Book value per common share was $7.62 as of March 31, 2018 compared to $7.42 on December 31, 2017. The components of the 20 cent change relative to December 31, '17 are shown on Slide 18. Please note, that the change to unrealized losses on a fixed income portfolio had a non-cash reduction of $0.17 on book value per share in the first quarter 2018.

With that, let me turn the call back to Scott for his concluding remarks.

Scott Wollney

Thanks Paul. The company's First Quarter Results were strong with an annualized return equity of 24.3% in the First Quarter 2018 compared to 14.9% in the prior year quarter. While we are pleased with the increase in operating income that contributed to this result, we are also cognizant of the importance of maintaining and growing book value.

We are committed to the ongoing stringent evaluation of our claims inventory and subsequent closure rates. Thus far these metrics are performing at levels consistent with our expectations.

We are benefiting from significant market-driven tailwinds in terms of new business written and retention. The niche on which we focus is not only evolving but also growing and we are seeing stable retention while still being able to remain a market leader in terms of pricing.

The higher levels of severity and frequency in other areas of commercial auto are certainly creating an environment where rate is moving in a favorable direction; however, we understand that this is a cyclical business and we remain dedicating to getting it right across cycles.

Historically are subsidiaries have outperformed broader commercial auto and we still are seeing this to be the case despite the reserve strengthening both we and others in commercial auto have experienced in recent years.

Slide 20 provides an overview of both premium and policy count distribution based on modeled underwriting scores. As you can see what overall premiums follow a relatively bell-shaped curve which is consistent with loss cost distribution in general, the bias of policies written is towards the right which are the score bands expected to generate the best underwriting profit. In short, we have utilized tools and predictive modeling to move our policy counts to those accounts with the best predicted loss experience.

On Slide 21, you can see evidence of this improved risk selection. Reported claims are relatively flat since we launched predictive analytics and underwriting, despite the fact that insured vehicle counts are up approximately 20%. In addition our average premium relative to risk is also up over that same period. Our team has worked diligently to identify any problematic claims with the goal of ensuring that we defend our clients against non-meritorious claims, but also proactively get viable claims to the most appropriate resolution as quickly and accurately as possible. We have an exceptional team we have been very pleased with the progress.

Slide 22 provide the detail with respect to losses and loss adjustment expenses paid on account to your basis for the ASI pool companies. As you can see paid activity in both areas has come down incrementally in the past two years following our deployment of predictive modeling in the claims area in early 2016. We are encouraged by this general trend and expected to continue to improve for these companies.

More detailed information is provided on Slide 23. On the left side of the page, we provide a breakdown of open claim counts and reserves for each of the distinct categories of claim types which we believe have different characteristics. The first category is made up of liability claims which were scored by our predictive analytics tools. These claims were reported after mid-April of 2016 and now represent the largest single category of open claim counts.

Case reserves for these claims are set at the amount predicted to be ultimate by a model. Thus far we have close 6437 of these claims for a total paid amount of 42.4 million against model reserves of 54.4 million. Approximately 22% of redundancy return $12 million back in the IBNR.

The second category are older claims which were not modeled primarily accident years 2015 and prior. As part of our year in process we have experienced adjusters to review each and every one of these claims and establish a database as a benchmark against which settlements can be compared. As you can see this inventory is shrinking and will eventually be fully eliminated.

In the first quarter we closed 317 of these claims for $8.6 million as compared to our estimated range of 5.4 to 13.3 million, almost exactly at our best estimate. There is a remaining inventory of 899 of these claims left.

The third category are the declining inventory of Michigan claims. As discussed in detail in prior calls, this geography has been very challenged and our overall policy count in the state is currently less than 1% and continuing to decline. Our year-end actuarial work now supports 120% incremental rate increase for Michigan in 2018 which were now in the process of implementing.

All Michigan claims have been file reviewed by internal specialists in the state and amounts paid have been consistent with their expectations. 384 open claims remain in inventory at this point.

The other case category are primarily physical damage claims which are generally low severity and have very limited volatility around settlement amounts given the short timeframe in which they are open.

Overall, accident year 2017 in prior reserves were reduced by 15.5% since year-end, while overall pending claim activity was reduced by more than 30%. This is not expected to be a linear relationship, but we are encouraged to see all these metrics moving in the right direction.

On the right side of Slide 23, we provide a breakdown of total reserves including IBNR by the same categories. As you can see IBNR is a percentage of total reserves remains relatively constant, while older pre-model in Michigan claims are run off and predictive model based case reserves are growing, as a percentage of total reserves. This is a good indication that claim closures are not eroding IBNR, especially as the older non-modeled claims are worn down.

To conclude, many of the initiatives we outlined earlier in the year regarding our claims processes and closure rates are coming in as expected with the goal of being able to accurately provide tangible data supporting our reserving over time. The goal is to get it right and ensure that investors can rely on our ability to underwrite effectively and have confidence in the earnings power related to Atlas' value proposition.

We understand that this is the backdrop against which our go forward operating results will be considered. That said, we continue to expect to generate full-year net income per share in excess of $2, provide a lot of activities, continue to behave as we've been observing, the full-year loss ratio should trend in a positive direction.

While we didn't talk much about on this call, we will continue to manage your business in an operationally efficient manner and as a result maintain an expense ratio in the range we have seen in the past year. I hope to see many of you at our investor day at our headquarters in Schaumburg immediately following our annual general meeting which will begin at 10 AM central time on May 22.

In this year's event, we anticipate focusing on our claims process and how we are utilizing all the technological advancements we have developed and integrated to generate the best possible bottom-line outcome for our customers, agents and investors.

We will also talk in more detail about opportunities in the near-term as well as the longer term from a strategic perspective. More details regarding this event are provided on Slide 25.

Now, let us open up for questions, Michelle.

Questions and Answers

Operator

Thank you, we will now be conducting a question-and-answer session. [Operator Instructions] One moment please while we pull the questions. Our first question comes in the line of Mat Carletti with JMP Securities. Please proceed with your question.

Matthew Carletti

Thanks, good morning.

Scott Wollney

Good morning, Matt.

Matthew Carletti

Just a few questions. Maybe if we start with the additional information you provided some looking at Slide 22, when you – the bullet on the right about the aggregate paid being 8.6 million versus expected range of 5.4 to 13.3, can you give us a little more context there. I mean, that obviously looks like a good outcome.

But you help us understand may be where were those claims reserved within that range or if they were done on a per case basis, but more of a group basis may be, how did the remaining population claims look, kind of within their range, did they move up in the range once those 26% of claims got paid out; I was trying to get an idea of how much – it's early days, but how much development one way or the other that might imply if the whole group kind of fall that pattern?

Scott Wollney

Sure, so year-end ‘17 as part of our year-end process we asked the group a very experienced adjusters with literally 10, 20, or even 30 years of experience to review all of the open claims that had not been modeled because they were too old at the time the model was implemented. So those are predominantly accident year 2015 and prior.

There were about 1300 claims a year-end in that inventory. And in January 2018, we concluded that analysis and built a database that essentially identified, kind of a low, high, and expected amount for each and every one of those claims, and our goal was to use that information as part of the overall year on reserving process and also at this point you know it serves as a benchmark against which we can measure those outcomes.

So those older claims have had factor case reserves put up against them, which was put in place as part of our transition to the predictive modeling base reserving practice, and we were relying on the bulk IBNR as developed by our actuaries’ year-end to essentially achieve ultimate on those groups of claims.

So, we did not change the case reserve on those claims; however, we did compare our claim staff’s analysis of expected ultimate with the actuarial prediction that was developed by our outside actuaries, in the case or the overall reserve set at year-end 2017, exceeds the expected outcome that was established by our adjusters for those accident years.

And if you look at Slide 23, on the right side the grey portion of the bar chart that we refer to as file review, that actually provides the amount based on our adjuster’s expectations, not the lower factor reserves. So to the extent that we continue to pay those claims at our adjusters expectations, the grey bar will eventually be eliminated and it should not require the use of any of the IBNR which is reflected by the larger green bar in those bar charts.

Matthew Carletti

Okay. Follow-on question actually while we moved at Slide 23. The lower left-hand chart, the second kind of category and from the left, the potential scored redundancy that looks to me like 8 million or something in that ballpark. Is that essentially your adjusters kind of most likely outcome case versus where the external actual or where you actually have it reserved in that Delta what's being reflected there?

Scott Wollney

No, so as we refer to on the call, the actual paid claim amounts for claims that have been modeled and have subsequently been closed are coming in at about 22% less than the model had predicted, and so that $8 million is effectively 20 or 22% of the current open modeled case reserve. The expectation is if the payments on those score claims continues to be consistent with what we've seen thus far, it should release that amount of reserve back into IBNR, but it is not reflected in the green IBNR number on the bar chart to the right.

So were not taking credit for it from a reserving perspective, we were keeping those case reserves up at the full amount predicted by the model, but thus far the model proves to be holding up and we believe that you know a good amount of that redundancy is the efficacy of using the modeling to triage claims earlier identify potentially larger claims, especially those in the $10,000 to 50,000 range and route them more effectively either settling them earlier with better outcomes or if appropriate defending them more aggressively earlier, again with the objective of achieving a better outcome through a stronger defense of those non-meritorious claims.

Matthew Carletti

Okay, and that bucket mostly is actually a 16 or 17? Correct, the scored bucket?

Scott Wollney

Correct and of course now 18 is what they get. It really starts with predominantly accident year ’16. There are some accident year ‘15 claims that would've been reported after mid-April of ’16, those also would be modeled.

Matthew Carletti

Okay, great and then this last question just switching away from reserves into the gross written premiums in the quarter. We definitely appreciate your comments about not renewing one large customer due to the price you wanted of him. What just more anecdotally or qualitatively, even when you backed that out, the growth rate slowed and I know you guys are putting through pretty significant rate increases, so that is not surprising.

Can you talk just a little bit about you know you think any of that was any concern of the marketing conversations who finds about what happened in Q4 or anything your ratings or otherwise related or do you think it really is just a little bit of sticker shock and the market will come around to it in terms of pricing?

Scott Wollney

Yes, I think we did have a lot of dialogue of course with our independent agents and large customers you know after the preannouncement earlier in the year. The question we got more often than that was, you're not exiting the market, are you? So there really is I think a scarcity of product worsening large generalist and a commercial auto space and underwriting their books.

We are not seeing any signs of those type of underwriters coming into our space through more price aggressive MGA's and so there is definitely continued demand. We did not see any significant slowdown of applications after the preannouncement. I think a lot of that is because our customers are generally not particularly sensitive to external ratings.

They put a lot of value on the customer service we provide and in particular claims handling capability, and so you know we deliver a strong message that were staying committed to this niche, we are to be disciplined from an underwriting perspective which means we are not always going to be the cheapest price, but we are going to continue to deliver that strong value proposition and differentiate on claims and continue to feel confident in the company's financial strength and ability to pay claims.

So you know we don't think that that slowdown is a result of a reaction to any particular news, but if you look at the sequential rate change we took, since 2012 and the market began firming, this is the third time that we push rate through at around 20% on a sequential basis in areas where ISO was changing rates in a particular quarter.

We did see a slowdown in terms of business the last time we pushed rate, but as with the last time which was about a year and a half ago, we do anticipate that the market will follow price leadership. We also believe that ISO rates are going to continue to go up this year at higher levels and so provided those things come in as we expect, we do anticipate continued growth but also at higher average premiums.

The final point I reiterate is the ball touch down is, the first quarter is our largest quarter for taxi business and taxi is the one segment that we focus on that is the most price-sensitive, especially for accounts that have been lost challenged and require a rate increase. There are cheaper prices in the market especially kind of local nonstandard companies in some cases who will pick those accounts up especially the larger ones for rates that we believe are going to be inadequate.

So we are happy to let that business go if necessary, if we are not able to generate the rate we expect. So, I think it's really the combination of all those things, but as I touched on, we do expect that for the remaining quarters of the year that are less proportionately focused on taxi, we will continue to see good growth because we did see positive growth in the limo/ livery line as well as in the paratransit line in the quarter, and we expect that to continue to the balance of the year.

Matthew Carletti

Okay, great, thank you very much for all the color and the answers, and a congrats on a nice start to the year.

Scott Wollney

Of course, thank you. Thanks Matt.

Operator

Thank you. Our next question comes from the line of Tieton Capital Management. Please proceed with your question.

Bill Dezellem

Thank you. In the color guidance with just the commentary relative to 2018, you have mentioned that Mid-80s Combined Ratio lead you to over a couple of Dollars of Earnings this year. However, the First Quarter was a little bit above that, that Mid-80s combined ratio. I am just curious, how you feel like you're going to get that mid-80s number over the course of the year given that you started a little lost that mark?

Scott Wollney

Sure, we tried to provide some context on our last call that we did anticipate beginning the year with a loss ratio selection that was higher than what we were targeting. You know our full year loss ratio post strengthening for accident year '17 came in around 60%. As we have shared, we have taken a lot of rate on the second half of last year and continue to do that. We are continuing to expect positive impacts from the use of modeling and underwriting as well as claims also.

So, all of those things should result in a ultimate loss ratio for 2018 that is better than what we were currently carrying; however, we do want to be appropriately conservative out of the gate and are going to wait to see losses continue to come in as we expect throughout the year and maybe even into next year, before we are going to really take full credit for where we are pricing.

So a lot of the change over the course of the year would relate to the loss ratio and again only if we continue to see the positive trends that we are expecting and began to see in the first quarter in terms of claims activity. So that's really a key component of it.

We do expect a little bit of improvement in the expense ratio as well. There are always some timing issues that impact the expense ratio on a quarterly basis and so on a full-year basis we are anticipating a slight improvement on the expense ratio as well.

Bill Dezellem

Great, thank you Scott.

Scott Wollney

Thanks for the question [ph].

Operator

Thank you. Our next question comes in the line of Bob Farnham with Boenning & Scattergood. Please proceed with your question.

Bob Farnham

Yes, Hi there and good morning.

Scott Wollney

Good morning.

Bob Farnham

Pick kind of a minor topic, but you had a couple of points about risk reserve development and sounds like it was largely related to the assigned risk pools. However the assigned risk pools that business performed in recent quarters loosely and is it reasonable to expect kind of a modest drag going forward given the lost trends in commercial auto for the industry overall?

Scott Wollney

Yes, certainly those costs are unexpected and therefore signed some companies and in the jurisdictions that you know generate that business. You know we have a difficult time forecasting those sorts of impacts on a quarterly basis.

We do believe because of the impacts across the commercial auto business generally that we will see a continuation of some deterioration from prior years in respect to these involuntary pools. Again, I can't necessarily pinpoint a number but we will continue to see some drag on the loss ratio as we continue this year.

If you look back at the last two years not every quarters we have had amounts in hundred thousands of dollars. In one case I think there was a million and a half or so. So from time to time in the past we have seen that impact because of the requirement that we take some of that assigned risk business which is all proportionate to the amount of commercial auto premium that we write in the given jurisdiction as a percentage of all commercial auto premiums from the broader segment.

So I don't think we anticipated to be a material impact over the course of the full year, but as Paul mentioned and it's important to reiterate that is something that is a result of the industry outcome and is assigned to us, it is not something that we choose to participate in, and so it's no everybody in the commercial auto spaces is proportionately going to be affected by that issue until the overall segment stabilizes.

Bob Farnham

Right, if I read your commentaries, it's sounds like you had little over two points of 'unfavorable development'. Is that 1.4 that come from the assigned risk pool.

Scott Wollney

The majority of it comes from the assigned risk pool. The differential the 1.4 is from the prior year quarter, so we did have some towards the end, 2017 above 0.6 of the total loss ratio in 2017 versus two points in the first quarter for 2018.

Bob Farnham

All right. So, it was almost virtually almost of it.

Scott Wollney

Yes.

Bob Farnham

Okay, great, thanks.

Scott Wollney

Thanks for the question.

Operator

[Operator Instructions] Our next question comes from the line of John Deysher with Pinnacle Capital Management. Please proceed with your question.

John Deysher

Hi, good morning.

Scott Wollney

Hi, John.

John Deysher

A couple of questions. One, the tax rate came down about 35% to 19, and I know this is the first quarter of the new tax rates but I was curious, can we normalize that the 19% going forward or was there some noise in there?

Scott Wollney

Yes, John, there was a little bit of noise in the first quarter related to the stock purchase agreement adjustment. So, normal normalize Fed tax rate is going to be at 21% going forward.

John Deysher

Okay, is there any state or local taxes that we have to address as well?

A – Scott Wollney

Those are going to be in our operating expense line, so most of the expense related to taxes is going to be in a 21% for federal.

John Deysher

Okay, thank you. I also noticed that you bought back some stock, it's a good sign. Is that part of a formal authorization or can you tell us exactly what the background is on that.

A – Scott Wollney

Sure, so that was purchased under 10b5-1 plan that was put in place last year, early in the year with algorithm driven and that authorization was fully utilized as of the end of the first quarter. We have kept the 10-b5 in place, the board obviously reviews all capital allocation related matters from time to time and certainly on a quarterly basis, so to the extent that we are going to reauthorize that we will press release at such time.

John Deysher

I know it's early but you anticipate doing so?

Scott Wollney

You know as part of the overall review of use of capital obviously, we look at the stock buyback as part of broader capital allocation, so you know while we may believe the stock price is undervalued based on our expectation in terms of earnings etc.

The decision to buyback is always driven ultimately by sources and uses of capital and cost of the capital, and so you know as we look at the market the opportunity to grow, our confidence in the earnings power from an underwriting perspective this year, we do want to deploy our capital into underwriting because we believe that that will generate the highest return on capital, but are always going to make sure that we have as many different levels available to us as possible to manage the capital allocation as well.

So I realized that was a general answer to a specific question but to the extent that we are going to reauthorize it as I said we will press release the details, but I think it is important to understand that the capital allocation is something we look at as a core competency and is something that the board pays a lot of attention to.

John Deysher

Understood, thanks very much.

Scott Wollney

Thanks for the question, John.

Operator

Thank you, there are no further questions at this time. I'd like to turn the call back over to Mr. Wollney for any closing remarks.

Scott Wollney

Very good. Thanks again Michelle and thank you everyone for participating on our call today, and once again hope to see many of you at our Investor Day later this month.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.