Atlas Financial Holdings' (AFH) CEO Scott Wollney

2016 Third Quarter Transcript

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Executives

Scott Wollney

President, Chief Executive Officer, Director

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Chief Financial Officer, Vice President

Operator

Greetings and welcome to the Atlas Financial Holdings 2016 Third Quarter Earnings Results 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 pleasure to introduce your host, Scott Wollney, CEO of Atlas Financial Holdings. Thank you, Mr. Wollney, you may begin.

Scott Wollney

Thank you very much Devin and good morning, everyone. With me today is Paul Romano, our Vice President and CFO.

Atlas achieved solid underwriting gains during the third quarter. We've a strong value proposition and have exhibited price leadership in recent periods. We've always said that underwriting profit and ultimately return on equity will take precedent over topline growth.

Our underwriting discipline reflects this commitment. Ongoing headwinds in connection with taxi-related business also had a greater than impact on gross premium written in the near term.

In the insurance industry, moving to topline by writing underpriced business is an easy thing to do, but it ultimately destroys capital. We simply won't do that. While there are some near-term demand-based pressures relating to taxi, which we believe will have a marginally lesser impact on our business over time for reasons that we'll outline on this call.

Our initiative to demonstrate price leadership earlier this year was also a primary reason growth slowed. We believe that this too is temporary with the market beginning to follow our lead.

However longer term, we remain extremely positive and expect Atlas to continue profitable growth. The competitive landscape is very favorable and our expertise and ability to act in a nimble fashion will enable us to realize this expectation in a matter of quarters not years.

We're confident that the decisions we've made with underwriting objectives in mind were appropriate and will continue to deliver better than industry results and book value growth going forward. We also continue to expect that our overall market share in the expanding, combined taxi, limousine livery and paratransit insurance niche market can grow to 20% provided commercial auto insurance market conditions remain favorable.

This morning we'll discuss Atlas' results, trends and changes within the current niche light commercial auto market where we operate and share our expectations in terms of goals and general visibility regarding the future.

I'll now turn it over to Paul to provide details about our quarterly materials and review our policy regarding forward-looking statement.

Paul Romano

Thank you, Scott and good morning, everyone. Yesterday, after market close, Atlas issued its 2016 third quarter 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, the risk factors discussed in the Risk Factors section of its Form 10-K for the year ended December 31, 2015. 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 statement, whether as a result of new information, future events or otherwise.

When discussing our business operations, we may use certain terms of art, 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 slide show presentation in conjunction with this call. While we won't specifically know each slide, as in the past, 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'll begin on Slide 3.

With that, I'd now like to turn the call back over to Scott.

Scott Wollney

Thanks Paul. The third quarter was a strong quarter of underwriting for Atlas, which directly led to better than industry results. We also captured some positive economics related to our 2013 purchase of Gateway Insurance Company.

Adjusted to remove the impact derived from our settlement of certain post-closing items in connection with the Gateway acquisition, return on common equity was 12.8%. While this result is in our target range exceeding the industry by 500 to 1,000 basis points, we're working to deliver a mid-to-high teens result based on current market conditions.

Some key underlying factors which Paul and I will touch on are highlighted on Slide 4. Throughout the first nine months of the year, we've been taking advantage of favorable pricing trends in many of our markets. This has been a continuing theme all year. We have a high level of visibility to implement rate changes where appropriate and have been doing so.

The company is targeting a better than 60% loss ratio in all areas, with the run rate expense ratio within the 24.5% to 26.5% range that we've communicated in the past. This lead to underwriting income of $7.1 million for the third quarter.

As I noted, we did have some unusual items related to our settlement of certain post-closing adjustments related to the Gateway acquisition that impacted the bottom-line metrics favorably. However, excluding those items, our core underwriting growth was still very strong. Paul will go into greater detail on these items and their financial impact later in the call.

Based on what we're seeing in the market, overall demand for our products remain strong with application counts up 40% or more as compared to last year and no signs of disruptive new competitors. We continue to pursue sequential rate increases and are increasingly leveraging our predictive analytics tools to differentiate risks.

With these things in mind, we believe that the company can return to a growth mode without compromising profit and further improve upon this result over time. While it is possible that gross written premiums may be relatively flat in the near-term, we are already above our minimum efficient scale delivering double-digit return on equity and significant book value growth, which we expect to continue nonetheless.

During the quarter, Atlas achieved a combined ratio of 83.5%, which included a loss ratio of 58.2% for the period as well as the positive economics related to Gateway, which I mentioned earlier. This directly led to higher net income, operating earnings per share and book value appreciation.

Year-over-year and quarterly trends relating to our operating ratios are shown on Slide 5. As always we encourage you to evaluate our business on at least an annual or longer, rather than quarter-over-quarter basis. Our year-to-date combined ratio of 84.2% is a more reflective run rate indicator of operating margin.

We're product of the fact that as a hyper-focused company, we're achieving a combined ratio that is considerably better than the 2015 overall P&C industry result of 98%. As discussed in the past, our expectation has been that future loss ratios should trend towards our prior year's pricing targets over time.

We expect that the incremental rate we're able to achieve, based on our strong value proposition and use of analytics, coupled with the current competitive environment, will deliver incrementally more positive results in the future. While our loss ratio can move up or down in any given quarter based on actual claims activity, it should generally continue to migrate towards pricing targets, especially on a year-over-year basis, barring unexpected extraordinary losses.

The company reported a profitable quarter of $6.5 million in net income or $0.51 per common diluted share, compared with $4 million or $0.32 per diluted share for the prior year period. Atlas' increased book value over each of the past 16 quarters, the company's book value increased over 16% from December 31, 2015 to $11.81 per common share as at September 30, 2016 and increased over 19% as compared to book value at September 30, 2015.

Now let me move to a discussion on premiums and the current state of our markets. Throughout Atlas' history, we've been consistent with respect to our commitment to disciplined bottom-line focused growth. Long-term return on equity and better than the industry underwriting results are our key benchmarks.

We understand the impact that topline growth can have in the near-term, but with the presence of favorable market conditions, our team will continue to focus on leveraging our specialty business model to generate higher ROE over time.

Every dollar of premium written requires the deployment of capital. We evaluate the market with this in mind. Our goal is to ensure that we generate the highest risk-adjusted return possible. Over time, we'll also utilize the financial tools we've put in place to optimize operating leverage.

During the third quarter, we reported a decrease in gross written premiums of 7% to $60.7 million. There were several factors that contributed to the decline, which I'll detail in a moment. However it's important to note that the decline is coming exclusively from shrinking related to the taxi related portion of our business.

Growth related to limo, livery and paratransit segments remain strong. Also it's important to note that we are still not seeing indicators of a softening insurance market in our niche. We're continuing to achieve sequential rate increases and are targeting better than average accounts to the increasingly sophisticated use of our predictive analytics tools.

Although gross written premium declined in the quarter, on a year-over-year basis in-force premium as of September 30, 2016, increased 11% to $220.4 million compared to $199.1 million last year. Also having reduced our quota share reinsurance session from 15% to 5%, more of our written premium will be earned than would otherwise have been the case.

We're also benefiting from a close working relationship with our independent agent network. We continue to see considerable interest from new agents, but have maintained our focus on cultivating the key core relationships that Atlas has in place through its subsidiaries for decades. This is one of our key value drivers.

We consistently engage with our agents as business partners to share information and ensure that we understand the changes within their respective markets. This is important for Atlas in terms of achieving proper rate for the new risk we write and it's also important in terms of retaining favorable business at desired levels.

To date in 2016, we've been approached by literally hundreds of potential new agents which is another clear indicator of demand for the products we write. We're very selective with respect to our agents and have appointed only a very small number of those who approached us this year.

Specific to the third quarter as detailed on Slide 6, there were a number of factors that affected premium. First, a portion of our excess taxi program in New York non-renewed to the unique circumstances. We do not believe that this is indicative of a trend regarding this line of business.

For reference, this program is a business arrangement providing excess coverage above the levels of risk retained by the insureds and only a small number of medallion owners qualified for this program. Those of you familiar with the company know about this seasonal item, which renews in the third quarter each year.

While the 27% year-over-year reduction in excess taxi premium is not expected to have a considerable impact on our bottom-line profitability, it did marginal impact quarterly premiums. The remaining premium related to this program represents less than 5% of our total enforced business.

As I mentioned at the beginning of this call, we did continue to see a reduction in traditional taxi premiums in the third quarter. While we did expect some continued decline due to the drivers shifting away from taxi operations, the approximate 25% reduction we saw in the third quarter was similar to what we saw in the second quarter and was higher than expected.

Our experience indicates that many drivers who transition out of the taxi space to drive for transportation network companies, do ultimately choose to participate in classes of service that require them to ultimately repurchase commercial auto insurance.

In fact 9.5% of the drivers scheduled on a livery policy Atlas had in force in September of this year, were included on a taxi policy just one year ago. Our research also suggests that people who elect to drive for categories of TNC businesses that do not require commercial auto insurance, tend to do so for less than six months and almost all transition to a category of service requiring commercial auto insurance or even return to the taxi space within 12 months.

We expect the taxi headwinds to start abating based on market dynamics. It is also the case that taxi now represents the smaller percentage of our overall book of business than it did in the past. Currently taxi makes up 27% of our in-force business.

Two years ago, it represented almost half. For reference, limo and livery as well as paratransit today represent 35% and 34%, where two years ago, they represented 10% and 24% respectively. On a related note, core lines of business make up 96% of our total premium, where two years ago, they represented only 78%.

We're confident in our expectations regarding a return to profitable growth based on the nature of the reduction of in-force business we've already seen with taxis having a less dramatic future impact, coupled with the market showing signs of acceptance of our rate levels based on new business conversion and renewal retention ratios, which are both improving relative to last quarter.

We believe that the niche on which Atlas focuses, still represents approximately $2.25 billion of the broader $31.3 billion in annual commercial auto premium. To be clear, this figure includes only full time professional taxi, limo, livery and paratransit drivers.

Within our addressable market, there is clarity at least in the near term shift from taxi delivery. It's primarily being driven by driver scarcity rather than revenue impact and as we've commented on in the past, the overall percentage of owner-operators relative to the whole is also increasing.

Some of these drivers are dispatched either part-time or full time by transportation network companies and are commercially licensed and insured. Based on consumer demand and demographic preferences, we expect the overall market size to continue to grow in terms of total vehicles in operation.

As regulations continue to evolve across the country and as commercial realities become more clear to both drivers and passengers, the size of the market for our products will most likely expand further.

Also based on feedback from our distribution channel and insureds, we do expect the reduction available taxies to flatten out in a matter of quarters not years. Already we saw signs that the client was beginning to moderate towards the end of the third quarter.

As the leader in this niche, Atlas continues to take a long-term, broader view to identify means of taking advantage of this market shift. We've implemented and continue to evaluate analytics and technology to ensure that we can both service and price effectively ahead of market conditions. We're also actively developing products that cater to the evolving needs of new and existing customers in our niche.

Atlas should be well positioned to deliver stronger margins with a goal of always exceeding the industry ROE due to our hyper focus. And as referenced previously, we will never take a price aggressive approach just to move the top line.

At this point, gross written premium for 2016 is likely to be relatively flat compared to last year. Net written and earned premium should be higher based on our reduced use of quota share reinsurance and the earnings of business written to date.

As I mentioned on past calls, the gross premium figure we previously stated was an estimated range not a goal. In fact many of you will recall that it was originally provided to moderate expectations regarding premium growth. Given the dynamics I've just described, at this time we do not feel it will be constructive to provide a revised range. We will however continue to provide visibility to the metrics that will impact our growth.

It's important to know that first and foremost, while we do want to optimize operating leverage, we will continue to focus on underwriting profit as our primary decision factor. As shown on Slide 7, our sequential rate changes have exceeded ISO beginning in 2012 with double-digit increases earlier this year.

With this in mind, should market conditions continue to support price levels that we believe will deliver better margins and return on equity in the long-term, by writing marginally less business we will do so. As a result, we expect to continue achieving underwriting profit at levels considerably better than the overall P&C industry throughout multiple market cycles.

On Slide 8 and 9, we highlight our in-force premium and geographic breakdown. You can see in the geographic breakdown, the impact of the excess taxi I mentioned earlier. On the whole, we're achieving increases in many of our states with growth in more than half of the states in which Atlas is currently writing and over 100% growth in several states as well.

There also some states where business shrunk, generally resulting from underwriting activity. With the stated goal of achieving proportionate market share, or approximately 20%, we still have ample room to leverage our current distribution channel for growth with desired underwriting results, provided market conditions remain favorable as they currently are.

Leveraging our proprietary policy system, Atlas express our pricing and product management teams have delivered consistent results and continue to monitor hit ratios closely to ensure that our pricing activity has the desired effect. As seen on Slide 10, these ratios are showing the expected signs of improvement as we've moderated sequential rate increases.

Slide 11 shows the distribution of accounts across various buckets of predicted risk with the lower score buckets on the left representing more challenged accounts and the higher score buckets on the right, representing more profitable accounts.

As you can see, while our premium is generally distributed evenly across these buckets, we are proactively writing a higher number of policies for the better accounts on the right. While these accounts may warrant a lower than average premium, the price elasticity of demand in our current competitive environment, coupled with Atlas' strong value proposition, allows us to win these accounts at pricing levels that should expand underwriting margins over time.

On Slide 12 you can see that in-force vehicle did contract in the last couple of quarters, but are now beginning to expand again. New business submissions are ahead year-over-year. We are seeing retention of renewals below our target level which is the result of the near-term impact of price increases, coupled with the fact that there are fewer vehicles per application, particularly in the taxi segment.

The number of applications as well as premium per vehicle were in line with or even a bit ahead of our expectations. As I discussed earlier and mentioned on our previous conference call, lower average vehicle counts per policy are likely a function of fleet operators reducing their fleet sizes with an increased share of the market becoming owner operators, probably as a result of the growth of ridesharing services in most local markets.

At September 30, 2016, our operating leverage as measured by net written premium to surplus, remained roughly 1.3 to 1 as shown on Slide 13. Managing this ratio is important from a regulatory and rating agency perspective. As I indicated earlier, we intend to ensure that this ratio is consistently evaluated to maximize return on equity over time.

We are confident that there will be opportunities to benefit from the dry powder we've currently got in our capital structure in terms of both organic and M&A related growth opportunities.

With that, I'll once again turn the call over to Paul for more detailed review of our financial results and then I'll return for concluding remarks.

Paul Romano

Thanks Scott. I'll keep the quarterly financial overview relatively brief and as always we encourage you to review our filings, our slide presentation and to reach out to Scott or myself with any questions.

Gross premium written was $60.7 million in the third quarter and in-force premium was $220.4 million and the company's gross unearned premium reserve was $117.8 million at September 30. As mentioned last quarter, we have flexibility in our operating leverage as we need to both maximize ROE, but also intelligently finance our company's expansion.

We have a quota share reinsurance agreement in place that allows Atlas the flexibility to make changes to session rates as necessary. For Q3 2016, we lowered the session rate from 15% to 5% of subject written premiums for American Country, American Service and Gateway Insurance Companies. The session rate for Global Liberty remains unchanged at 25% of subject written.

This is a reflection of continued capital strength and allows us to retain more of the profitable business we write in future periods. As a result of this change, net premium written was $52.2 million in the third quarter and was relatively flat as compared to net written premium of $52 million for the same quarter of 2015.

Net premium earned increased by 3.9% in the third quarter of 2016 to $43.3 million as compared to $41.7 million reported in the third quarter of 2015. On Slide 16, we lay out the components and comparisons of Atlas' combined ratio and the three months -- for the three month ended and the nine months ended September 30, 2016 and 2015.

The loss ratio improved to 58.2% in the third quarter of 2016 from the 60% reported in the prior year period, largely as a result of the continued price activity Scott noted earlier. During the period, we reported underwriting expense ratio of 25.3% compared to 28.2% in the prior year period. The decrease in the underwriting expense ratio was primarily due to expenses recovered pursuant to a settlement of some aspects of the Gateway stock purchase agreement.

Let me take a moment to outline the elements of this settlement. In January 2013, Atlas purchased Gateway with a combination of cash and preferred shares. The preferred shares were tied to an adverse development cover linked to the 12/31/12 and prior commercial auto liability reserves.

These shares were redeemable by Atlas after the third anniversary of the original issuance, are convertible into 1.127 common shares by their holder after the fifth anniversary of their reissuance. These shares would be adjusted annually based on the development of the 12/31/12 in prior commercial auto liability reserves on Gateway's books.

As a result of net favorable development in these specific reserves, Atlas issued an additional 538,560 preferred shares over the course of the last few years. On September 30, 2016, Atlas redeemed and retired all 2,538,560 outstanding preferred shares issued to the former owner of Gateway at $1 par value per share along with $409,000 of accrued dividends.

In addition to not having dividends tolling beginning in Q4 of 2016, the preferred share redemption will also eliminate 322,397 dilutive common shares as used in the diluted earnings per share computations. Atlas also settled an additional aspect of the Gateway stock purchase agreement related to deferred tax assets, which created a $1.9 million reduction of underwriting expense in Q3 of 2016 as considered to be a favorable negotiated outcome.

In accordance with US GAAP, such adjustments are reflected in the income statement in the period that the valuation is estimated. This adjustment decreased the Q3 2016 underwriting expense ratio by 4.4 percentage points. Excluding the impact of the share-based compensation expenses and the Gateway deferred tax adjustment, the underwriting expense ratio was 28.8% during the period compared to 27.2% in the prior year period.

All other aspects of the Gateway stock purchase agreement remain intact, which includes the 100% reinsurance arrangement on the run off Workers Compensation book. Q3 expenses were about $950,000 higher than our run rate, due to the timing of certain licenses and fee payments and other volume-based accruals.

We continue to focus on our underwriting expense management around our previously indicated annual target of 24.5% to 26.5% of net premium earned. Excluding the impact of share-based compensation expenses and Gateway deferred tax adjustment, Atlas reported a 26.2% underwriting expense ratio for the nine months ended September 30, 2016.

As Scott mentioned, our year-to-date expense ratio is a good indicator of our run rate expectation. Overall Atlas' combined ratio for the third quarter 2016 was 83.5% compared to 88.2% for three -- for the third quarter 2015. Underwriting profit, which is the income produced prior to investment income increased to $7.1 million from $4.9 million in the prior year period or an increase of 44.5%.

Atlas generated net investment income of $1.4 million and $1.2 million for the quarters ended September 30, 2016 and 2015 as well as $630,000 and $91,000 of realized gains respectively. This resulted in an overall annualized investment yield of 2.2% for the quarter ended September 30, 2016.

Atlas reported net income after-tax of $6.5 million during the three month period ended September 30, 2016, compared to net income after-tax of $4 million during the prior year quarter. Atlas generated $0.51 per common share diluted for the three month period ended September 30, 2016, as compared to $0.32 per common share diluted as reported for the three month period ended September 30, 2015.

For the third quarter 2016, the annualized after-tax return on average common equity was 17.9% and 12.8% on a pro forma non-GAAP basis without the impact of the Gateway adjustment. In comparison for the full year 2015, the overall P&C industry reported a pretax return on average equity of 8.49%, which if tax adjusted using normal federal tax rates would be 5.5%.

If you're following along in the slide deck, on Slide 17, we detail the components of book value. We increased book value by $1.66 to $11.81 at September 30, 2016 from $10.15 at December 31, 2015.

Moving quickly to the balance sheet, we continue to place a priority on preservation of capital to support future premium growth. Our investment duration of 3.3 years remains consistent with the expected liquidity needs and claim payout patterns and the majority of our holdings are in fixed income securities rated AA or better by S&P.

The high quality of our investment portfolio is detailed on Slide 19. Our cash and invested assets at September 30, 2016, was $233.4 million compared to $233.3 million at December 31, 2015. Unearned premium balances, which represents premiums corresponding to the time periods remaining on the underlying in-force policies, were $117.8 million compared to $108.2 million at December 31, 2015.

Because we intend to hold securities to maturity, while any increases in interest rates could create an unrealized loss in the short term we would not expect such losses to be realized. Working with our outside investment advisers, we monitor the positions in our portfolio closely.

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

Scott Wollney

Thanks, Paul. We've got a positive long-term view of the overall commercial auto market and specifically our niche within that market. There are a number of challenges facing larger generalist insurers in the space, which we feel could create opportunities for a specialist like Atlas. We generally utilized the Council of Insurance Agents and Broker Data that is released quarterly to help illustrate rate trends.

As communicated on our last call, in Q2 we expected incremental rate hardening and did in fact see that happen. Information shared by our distribution partners and communicated by other commercial auto carriers, continues to suggest that the market will follow our price leadership and that there is room for incremental rate.

It seems unlikely that generalists and insurers will choose to enter our space to price aggressive channels so long as opportunities for improvement exist in the broader commercial auto segments on which they focus directly.

We continue to see additional information from the privately held transportation network companies in terms of ridership and we certainly are tracking their short-term impact on the market. We believe and there is increasing evidence of this, that the development of these technologies is increasing ridership, which will ultimately expand Atlas' addressable market.

A well-run and properly licensed small fleet owner or owner operator is our target customer whether under dispatch through a traditional or evolving business model.

We intend to ensure that the evolution and expansion of our target market ultimately leads to more opportunity for Atlas. This includes both the near-term shifts we've discussed as well as longer-term trends such as adoption of autonomous vehicles, expanding gig economy jobs etcetera.

Atlas continues to leverage our core competencies as a specialty insurance operator, M&A strategist and always being a good steward of capital. We will manage our balance sheet effectively and are consistently pursuing opportunities to improve as a hyper focus market leader and a highly transactional distinct and growing niche market.

We produce strong underwriting margins during the third quarter with much better than industry results. Our team will continue to closely monitor the market and related opportunities and feel very confident about our ability to achieve Atlas's primary goal of compounding book value growth through above-average return on equity across multiple years and cycles.

With that let’s turn it over for questions.

Question-and-Answer Session

Operator

Thank you. Our first question comes from the line of Paul Newsome with Sandler O'Neill. Please proceed with your question.

Paul Newsome

Good morning. I have two questions to go through. One is, could you walk through the pieces of the taxi, limo and transit business one more time and give us a sense of because obviously I think the key question here to the stock in the near-term is where and if that turnaround will happen.

And so I think the question here is really assuming, we get a flattening of the taxi business, when does that inflection happen? Is this 2017, 2018 kind of issue or is it I'll leave it at that?

Scott Wollney

Sure, so it’s an important question and as I referenced earlier on the call today, traditional taxi insurance represents 27% of our in-force business. Two years ago, that line represented almost half of our in-force business. So, it is a smaller piece of the overall pie today than it was in the past that is to a great extent because we have seen a lot of taxis becoming parked and that's really being driven by drivers.

There is a driver shortage today based on the increased overall demand for people who drive people around for money and so we are seeing a shift and so some of the reduction in terms of the taxi program is because of that and as we look forward, which I think is the heart of your question, we are expecting continued growth from the livery and paratransit spaces.

We have not seen those segments of business be negatively impacted by the transition and back delivery space is actually beginning to grow incrementally as a result of some of the driver shift. As I mentioned 9.5% of these drivers ensured on livery policies today. We're actually on a taxi policy over about a year ago and so that is good support for our expectation that these drivers are not disappearing from our addressable market, but they may be transitioning through a category of service that may not require commercial auto insurance in the near-term, but ultimately in order to generate more adequate revenue.

They're ultimately moving into categories of service that do and so we do expect that trend to continue. So the dynamic is really we expect the taxi reduction to begin to abate. We do not believe taxi goes to zero. We are as I mentioned starting to see some early indications that that flattening is happening.

I would not expect that it will stop in the fourth quarter altogether, but we do expect that the reduction, the marginal reduction in taxi business will begin to abate in the fourth quarter and we also expect to continue to see growth in the other lines of business and so the inflection point as you referenced is really going to be a combination of those two things.

So as I mentioned, I think we expect to return to profitable growth in the near-term. I am hesitant to peg it to a specific quarter because of the fact that we simply aren't going to chase premium dollars and so I think it is very important to understand that we are always going to focus on underwriting discipline.

We are still in a very favorable competitive environment despite this transition related to the taxi business and we do want to take advantage of that as a specialty underwriter. So as I mentioned, I think near-term we may see some continued flattening, but ultimately we are seeing you underlying growth in two of our segments, which are becoming increasingly large percentage of our overall book of business and we do think that that's going to have a positive impact in 2017.

So hopefully that provide some further guidance but as I said, we simply don't look at the top line as a target or a goal and so we are not going to put out a specific number at this point other than to say we are to continue to focus on underwriting margin, return on equity in an overall niche market that we do see expanding across the three categories of our business.

Paul Newsome

My second question is about capital management prospectively, if we see essentially an environment of no growth, what are the levers you'll pull from a capital management perspective and you maybe talked about certain win you might pull those levers. It sounds like you're already doing something with reinsurance, but also stock repurchase and other capital management levers, assuming an environment which may or may not happen where you see prospectively flat growth.

Scott Wollney

Sure, and again I think it's important to underscore it may or may not happen piece. As I said we do believe that we will see a return to profitable growth and so this hypothetical is inconsistent with our current expectation, but that said, if we did see flat premium in 2017 for example, we would have some excess capital, which could either be redeployed to pursue other strategic M&A, which is what we've always said we intended to do when and if we had excess capital and when and if we find favorable strategic acquisition opportunities.

And we are very actively evaluating a number of potential opportunities. It has been very consistently part of our strategy to find opportunities either to capture incremental market share in our current needs or look for opportunities for horizontal expansion in the specialty commercial auto segment through incremental M&A.

So it's helpful to recognize that that is a healthy pipeline that we're currently evaluating, that would be one potential utilization for excess capital. If we did see the property-casualty segment in which we operate begin to soften, that might suggest that we would have a longer-term level of excess capital.

It would probably be only at that point and if we didn't have any favorable strategic M&A opportunities that we would consider buying back stock, but as we've always said, if we do have excess capital and we don't have strategic opportunities to deploy that capital, we would definitely return the capital rather than have it sitting unnecessarily on our balance sheet.

Paul Newsome

Thank you very much.

Scott Wollney

Thanks for the questions.

Operator

Thank you. Our next question comes from the line of Ryan Byrnes with Janney. Please proceed with your question.

Ryan Byrnes

Great. Thanks. Good morning, everybody. Just going back to the taxi market, with your rate, with your premium down I guess 25% or 26%, how was the overall U.S. taxi market? Would that be a similar decrease or just trying to figure out if you guys are losing share from pricing initiatives or anything like that?

Scott Wollney

I think it's pretty geographic and so areas that have more of what you might have traditionally described as an on-demand type environment versus retail suburban areas rather than major metro areas, I think the taxi industry is down 20% to 30%.

In some of the more major metro areas, I think that the revenue was down more like 10% to 20% and so the reduction that we're saying is probably on par with the overall reduction in terms of vehicles on the road and as I mentioned earlier or at least touched on, the dynamic is shifting a bit where a couple of years ago, the impact of transportation network companies seem to be impacting revenue more than driver availability.

In the last year or so what we're seeing is that it seems to be having more of an impact on driver availability and so we think what I call Halo effect drivers that may have not been professional drivers who are testing the waters with transportation network companies predominantly driving for services that may not require commercial auto insurance outside of New York anyway are tending to become a smaller percentage of the overall driver pool and more and more of the drivers are actually professionally licensed drivers who are trying to figure out which business model is going to be most consistent with their desire for flexibility or support or ultimately income.

And so I think when we -- you think about where that's going, ultimately we are seeing a lot of those drivers who were once on a taxi policy show back up on a livery policy within 6 to 12 months and so I think that is consistent with our longer-term expectation that what's going on in the industry is ultimately going to expand our addressable market and so it will ultimately be a positive for us as opposed to a negative.

So in the near term, there is a bit of a headwind on taxi which used to be our largest line of business. It is now one of -- now about a third of our business and shrinking on and so any continued headwind on taxi is going to have a marginally lesser effect and as delivery limo and paratransit spaces become a bigger and bigger percentage of our overall pie, the growth that we're seeing in those segments, which we do expect to continue is actually going to start to overcome the pressure of the headwinds on taxi.

So in a nutshell, it's a smaller piece of the pie. We expect it to shrink less it being taxi and limo livery and paratransit is becoming a bigger percentage of the pie and we expect it to grow more.

Ryan Byrnes

Got you. Appreciate that color and then moving on to kind of the underlying loss ratio or trends in the business you guys continue to show modest improvement there. Just wanted to get your thought there on rate adequacy and especially on the personal lines side we continue to see some new increased frequency from -- and also severity from distracted drivers. Just wanted to see if that's playing out at all in your woods.

Scott Wollney

Sure. No, it's a great question. It is something that we monitor really closely. We have not seen increases in frequency or severity. We do evaluate that. I think the biggest difference between our segment and personal lines is that a lot of what may be driving personal lines in terms of distracted driving or even more miles on the street as a result of relatively less expensive gas which are the two things that most personal carriers have cited as drivers of the frequency issue anyway.

I'm not really back to so much in our business. The people we ensure are generally going to have their vehicles on the road to optimize revenue and so they don't tend to drive more or less depending on gas prices and as a practical matter and I don't mean to sound trite, but I think the drivers that we ensure have always traditionally been a little bit more distracted because of the fact that they are looking for passengers that maybe using navigation systems, that may be communicating with dispatch.

And so a factor of the impact of somewhat distracted driving I think is already baked into the data that we've used on to build our pricing model and our analytics tool. So while it's certainly something that we monitor closely, we are not seeing a negative effect and those are some of the reasons why we're comfortable that that's the appropriate conclusion.

The first step is always to make sure we see it in the numbers and then once we see something in the numbers, we always want to make sure that we can tie it back to a reality that's going to make reasonable sense, a rational sense. So that's the first piece and then the second in terms of your question about rate adequacy, we are definitely putting more rate in the market.

As we pointed out on the slide that shows the distribution of policies based on the predictive analytics score, we are absolutely attracting a higher percentage of better accounts as we increasingly leverage the capabilities of our operative analytics tools, which we've touched on before, but one of the real benefits of acquiring companies with decades of experience and data in our niche segment is that we did expect for it to serve as a foundation to build underwriting models that would be very difficult to replicate by a competitor.

And so we are now starting to get the benefit of that and so the reason we wanted to start to share some information about the impact of those predictive analytics is that we are definitely able to use those tools to not only make sure that we are getting an adequate level of rate to achieve our targeted underwriting margin, but to also attract a disproportionately high amount of better accounts, which should ultimately allow us to further expand underwriting margin as well.

And that's going to be important whether we're in a continuing favorable market as we are today and it will also help us down the road when the market does inevitably turn soft because it will also allow us to hold market share for better accounts longer and that's going to be equally important from a cross cycle perspective.

Ryan Byrnes

Okay. Great. Thanks for that. And just if I can sneak in one more just numbers question for Paul, I just wanted to make sure I had the diluted share count correct post I guess the preferred $12.4 million in the current?

Paul Romano

Yes.

Ryan Byrnes

Great. Thanks.

Scott Wollney

Thanks Ryan.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of Brian Hollenden with Sidoti & Co. Please proceed with your question.

Brian Hollenden

Good morning, guys and thanks for taking my call.

Scott Wollney

Good morning, Brian.

Brian Hollenden

How much of your livery growth is price increases versus adding Uber black drivers and should we expect this growth to significantly accelerate given the widespread growth of Uber?

Scott Wollney

So overall I would say the impact of price is probably mid-to-high single digits and so a lot of the business we are writing in terms of new business especially is at an average higher price. Right now we estimate that about 10% of our overall business are drivers who indicate what I expect they actually indicate on their applications that they are being dispatched in whole or in part by Uber and we would estimate that that's probably a low percentage because not all applicants choose to answer that question.

So from that perspective, those drivers are probably actually a higher percentage of our overall book of business and they are definitely a growing segment and so as I mentioned I think the best indicator is the fact that almost 10% of the drivers on our livery policies today were drivers on a taxi policy a year ago.

In the past we would not have seen that kind of significant drivers shift and so one thing that is an underlying positive about that too is many of those drivers may have been one driver on a larger fleet policy who are now becoming owner operators and as we've touched on in the past, owner operators are really our target market and we are also generally able to attract a wider underwriting margin for owner operators based on the strength of our value proposition and market dynamics in general.

So again we do see that as a positive long-term trend and we do think that that segment of our business is going to grow disproportionately in a positive way as the market continues to evolve.

Brian Hollenden

Thanks and you touched on this earlier, but how much of the taxi premium drop-off is related to less taxi drivers versus price increases that deterred renewals?

Scott Wollney

So I would say and it's hard to evaluate the absolute impact of price elasticity on the renewals. What we do know is that our renewal retention is still below our target rate. So we had illustrated that in the deck whether we're targeting renewal retention of about 85% and in recent quarters we had seen that drop.

So we are looking at opportunities to moderate price increases especially for existing good accounts, unless positive loss ratio accounts and so we are going to manage that back to our target retention of 85%. As I touched on and as we showed in the data, we are starting to see the impact of that activity have the desired effect and so there is definitely opportunity in terms of increasing renewal retention for good accounts going forward.

And as I touched on we are seeing the market begin to follow our price leadership in terms of our competitors and ISO did in fact recommend to people who adopt ISO incremental rate increases as well. And so all of those things should allow us to capture more premium from the existing demand that we're currently seeing.

As I mentioned application counts are up significantly, so we are not facing a challenge of -- it's not a reduction of broad-based demand. So application counts are up, agent inquiries are up significantly. It really is a function of the price at which we want to clear that demand and as I mentioned over and over obviously we are setting that price based at levels that we believe will expand underwriting margin and ultimately return on equity over time.

Brian Hollenden

Thanks and one last question, does this drop off in premium growth change your need for acquisitions or how should we think of acquisitions given this lack of growth?

Scott Wollney

I guess I would say first it's important to put into context the fact that we have seen one quarter without growth and despite the fact that our gross written premium in the third quarter did not grow relative to last year, our in-force business continues to be higher.

And so I think it is certainly premature to suggest that because of a single quarter and as a result of exposure to a single line that is becoming a smaller overall percentage of our book of business that we are no longer in a growth mode. And so I think it's important to set that expectation that we are not looking at this as a transition out of longer term growth opportunity.

We've got about 10% market penetration across taxi limo and paratransit combined. We still believe that 20% would be proportionate and so there is a lot of opportunity to continue to grow but more of that growth may be from livery, limo and paratransit than it is from taxi.

So that said, we are always looking at potential strategic M&A, but we are also always going to look at any particular deal with the expectation that it first and foremost needs to be strategic. Then it is also important that it be accretive and so from a valuation perspective we look at accretion expectation as being able to have a positive impact on both book value and income within about one year of acquisition.

And so every deal we've done has met that criteria and our expectation is that we will continue to move forward with that expectation. So I don't think what we saw in the quarter changes our view on M&A but there is definitely time and attention being spent to find incremental opportunities.

But again only if they're strategic and only if we believe that the valuation and the nature of the deal is going to support accretion shortly after the deals are consummated.

And the final corollary I mentioned is although the adjustments that Paul talk about for the Gateway transaction are nonoperational. They are real economics and I think help to illustrate the fact that we have structured the acquisitions we have made in a way that have a very positive impact ultimately on our financial results.

Brian Hollenden

Okay.

Operator

Thank you. Our next question comes from the line of Brian Horey of Aurelian. Please proceed with your question.

Brian Horey

Thanks for taking my question. With regard to the taxi space and the lower utilization, are you able to distinguish between the permanent shrinkage of a fleet versus medallions that are put on the shelf for lack of a better word?

Scott Wollney

Yeah it's an important thing to try to understand and there is no bright line between those two. What I can tell you is that the fact that most of the quote unquote "shelved vehicles or medallions seem to be a result of limited driver availability as opposed to consumer demand does suggest that the correction if you want to call it that that impacted the taxi space in the last couple of years is probably already relatively flattened out because obviously consumer demand is the first issue that any industry has to consider in terms of thinking about what's the right level of supply to meet that demand.

The second thing is then the ability to deliver that supply and the ability to deliver that supply in the taxi industry has to do with drivers and so in the last couple of quarters, we have seen drivers being attracted to the P&C space. There has been lots of advertising on radio and television and there have been incentives provided by those companies to attract professional drivers.

All of that to a great extent is the result of those companies pretty heavily subsidizing that space. So in a more normal competitive environment, I think you would see that some of those drivers perhaps many would actually return to a more traditional space and at the same time we're also starting to see a lot of the traditional taxi companies more effectively promoting and utilizing mobile phone apps and doing other things to try to improve their competitive position both from a consumer demand perspective as well as to attract and retain good drivers.

And so I think we feel like the anecdotal information from our clients suggest that we may have already reached that permanent reduction and now it's just a function of the artificial attraction of drivers with subsidies and that ultimately that should flatten out based on competitive pressures.

But as I said we want to be careful not to try to handicap or put a timeline around something that we really cannot control and obviously where the drivers go is in the short run going to be impactful on our business, but in the long run as I touched on whether they return to taxi or whether they ultimately commit to being a full-time driver for a transportation network company in a class of business where they have to buy insurance either way, they will most likely return to our addressable market and that's where we expect to see a long-term benefit irrespective of where the drivers end up.

Brian Horey

Okay. And is the impact of shelving medallions, is that seem to be greater in the on-demand taxi markets of this retail markets from what you can gather?

Scott Wollney

Well it's definitely having the most impact in areas where passengers typically had to call a cab, some more suburban areas in the major metro areas where a lot of the revenue relates to street retail, we're not seeing as much of a negative impact because obviously if you are in Manhattan or Downtown Chicago for example, the passenger who is going to go out on the street and raise her hand and held a cab is generally still doing that.

It's really more the prearranged rides where the impact of T&C I think has had a bigger impact on the taxi space and then again I think from a consumer demand perspective to a great extent, I think we've already seen that run its course. I think the real issue at this point again is going to be driver availability and what the various segments can do to attract and retain good drivers.

Brian Horey

Okay. Can you quantify at all the impact of lower utilization on your underwriting expense? Is there miles driven or number of days in service per vehicle that you can talk about that that may be helping that number, just given some of these utilization issues?

Scott Wollney

Yeah, it's a great observation. I think especially in terms of the remaining in-force taxi business, there is a tipping point between revenue declining and when a vehicle actually gets parked and so we do believe that the vehicles we are insuring today are probably being driven a little bit less. So in case of the vehicles that remain insured and remain on the road, they are probably going to experience slightly less frequency of claim as a result of that.

And in fact when we look at our frequency statistics, our frequency is improving, which again is the opposite of what personal auto insurers are seeing and I suspect that the utilization is one of the reasons why we're actually seeing a positive improvement there.

So obviously when we go through our pricing activities, we forecast or try to forecast the impact of both frequency and severity trends on and so we'll ultimately take those things into consideration. But yes, I think it is a potentially modest positive in terms of the underlying loss trends.

Brian Horey

Okay. So do you get any underlying data from the operators in terms of mileage or days or use, is that a fact that you guys can access?

Scott Wollney

For owner operators it is not really something that we track. Our predictive analytics tool looks at about two dozen different things in terms of ultimately determining the rate relativity or risk relativity. For larger fleets, we do get that information, but the larger fleets are a relatively small percentage of our overall book of business.

So at this point there is nothing more specific that I can tell you about that, but we are definitely looking at the actual impacts on frequency and severity as we contemplate our pricing.

Brian Horey

Last question is have you seen any impact from either bankruptcies or financial distress on premium payments or cancellations and I'm thinking in particular of the New York access line and whether that was a factor in that -- in that dynamic?

Scott Wollney

In terms of the New York access taxi businesses I mentioned there was sort of a single account that ultimately non-renewed in that program. They were in kind of a unique circumstance that I won't go into detail on, but ultimately we don't believe that that is a sign of an ongoing trend related to future expectations.

Brian Horey

Okay. Thanks very much for your answers.

Scott Wollney

Thanks for your questions.

Operator

Thank you. Our next question comes from line of Samir Khare with Capital Returns Management. Please proceed with your question.

Samir Khare

Hi. Good morning.

Scott Wollney

Good morning, Samir.

Samir Khare

Good morning. I was wondering if there was any part of your predictive modeling initiative on the underwriting side that led to declining risks that you would have other taken.

Scott Wollney

Well, so put really simply it is helping us to charge higher premiums for those accounts that are more likely to be challenged risks and to be more attractively priced for accounts that are predicted to be better risks. So it is a tool that our underwriters can use to make increasingly more sophisticated decisions about which accounts to essentially either non-renew or choose not to quote and or to charge a disproportionately higher premium based on what's available on our scheduled credit and debit.

And so the expectation over time is definitely to continue to proactively create the bias that we illustrated on the slide in the deck that shows the policy count by bucket of risk category and so the short answer is yes and again the long-term benefit should be less riskier accounts and more less risky accounts where we think that the price elasticity of demand will essentially allow us to write those better accounts at potentially more competitive rate levels, but without giving up a disproportionate amount of the expected underwriting profit.

Samir Khare

Okay. And then you said that the decline in taxi you start seeing that moderate at the end of Q3. What are you seeing in Q4 thus far? I think it would be premature to give specific guidance about Q4 since we're not that far into the quarter.

And I really I understand that there will be certain investors who are going to really focus on topline growth, but the fact is other than managing our resources and capital, we are simply not looking at that as a target or a goal. And so we are going to closely monitor it, so we can manage our resources and we do expect that the things that we have been talking about on this call are going to have the positive impact we anticipate in terms of future profitable growth.

But as with anything in the insurance industry, the shifts in our business are going to move as trend. None of these things are going to stop on its own and so I guess I want to be very careful not to create an expectation that we are going to simply move the top line one way or another because again our focus is always going to be on the bottom line and ultimately the market conditions are going to dictate to a great extent what happens in terms of written premium.

But all that said we do see these positive underlying issues and believe that they are ultimately going to lead to the conclusion that I suggested.

Samir Khare

Okay. And then the business that you're losing or shrinking, is that -- any of that business per the Global Liberty Book and if so, will there be any offset from the Global Liberty adjustment?

Scott Wollney

Yes. So Global Liberty has been very stable, for everybody's reference, Global Liberty is the company that we acquired in New York in 2015. They write almost entirely limo and livery business and predominantly the New York market.

They do not write any yellow cab business and so part of what we thought was so attractive about Global was the fact that they are well-positioned to serve as the foundation for us to expand our presence in the New York livery space and at the same time they did not have any significant exposure to the taxi space.

So the Global Liberty Book has been very steady and we do ultimately believe that it will as anticipated serve as a foundation for us to ultimately pursue growth opportunities in the broader New York market, especially as the industry may trend a little bit more towards delivery livery versus yellow cab.

Samir Khare

Okay. And if the growth continues and the trajectory for some time, are you guys -- do you have the flexibility and the willingness to ratchet down the quota share to zero.

Scott Wollney

Yeah, from a cost of capital standpoint, the quota share is very attractive and so in terms of willingness we definitely are willing to. We're very confident in our loss results and feel very good about retaining as much of that as possible.

The ability to do that is to a great extent going to be determined based on what we might anticipate rating agency reaction could be and so as indicated by the fact that our ratings were all reaffirmed by A. M. Best in the quarter, obviously they're comfortable with where we're at.

If we do see that the operating leverage within Global Liberty will allow us to ratchet down the quota share there, we would certainly be willing to do so. I think we will probably not take any of the companies below the minimum 5% because we do want to keep the treaty in place because it is a valuable tool that will help us as we do see growth continue in the future.

So as I mentioned in response to the earlier question, we do not see the short-term slowdown in written premium in the third quarter to be an indication that overall we are coming out of a growth mode. So we do still anticipate future growth and as a result we do want to make sure we still have the ability to utilize that quota share reinsurance to the extent that it will be helpful, whether it's to support organic growth or in connection with the potential acquisition.

Samir Khare

Okay. And then the accident year loss ratio in the quarter it was quite good. Was there any re-estimation of the 2016 accident year loss ratio and/or any one timers that benefitted the loss ratio.

Scott Wollney

From a loss ratio perspective, there was not any re-estimation as we've touched on before, obviously the impact of the positive rate activity and ultimately what we believe is improved risk selection based on the predictive analytics are going to earn into our book of business over time.

And so I think on a year-over-year basis, you were really seeing the expected positive result of those things having the anticipated impact.

Samir Khare

Okay. And then with the predictive modeling initiative in Clinton underwriting have you guys taking any benefit from your loss ratio picks on a prior year or even the way you guys are picking loss ratios up front?

Scott Wollney

Not explicitly and so we want to see the actual impact flow through the numbers, I think before we would take any future credit. At this point from a claim's perspective about 10% of our current claims inventory have been scored by the model in real time and the claims that have been resolved that were scored in real-time by the model and have ultimately since been paid, are indicating that it's going to have the positive effect we expect but that's a pretty small sample size too.

So to touch on in earlier quarters when we first introduced the fact that we were applying pretty analytics to claims, it is going to take a year or two for the entire claims inventory to ultimately have been scored in real-time. And so that'll be that the expected positive impact of that is going to take some time to be fully realized.

But as we touched on what we believe is that over that period of time the benefit on the loss ratio could be as much as 3% to 5%. So still very encouraging, I think a great tool, but still relatively early in the process.

Samir Khare

Okay. And that was 3% to 5% or three to five points.

Scott Wollney

Three to five percentage points. Again we'll have the option to either try to capture or use it to allow us to be more competitive from a price perspective and perhaps write more business at the target underwriting margin levels and which we go at that is going to depend really on the property-casualty market condition or segment.

Samir Khare

Okay. And then just on the acquisition ratio, you're backing up the quota share. I saw that this quarter it was about 15.7 versus last year of 14.9, what explains the increase.

Scott Wollney

I think it's predominantly just a difference in statutory premium tax levels based on business mix by geography. I don't know Paul if you have any other comments about that.

Paul Romano

It's a portion of that as well as some contingent calculations that we have on some profit-sharing arrangements with our cornerstone agents as well.

Samir Khare

All right. Thanks guys. Appreciate it.

Scott Wollney

Thanks for the questions Samir.

Operator

Thank you. Our next question comes from the line of Wally Walker with Hana Road Capital. Please proceed with your question.

Wally Walker

Good morning. As the operating leverage took a dip as your record was up in the quarter, could you talk about steps you're taking or trends you see to manage that and obvious impact on ROE?

Scott Wollney

Sure. No that's an important question. As I touched on ROE, in the near-term we are not going to have any kind of a knee-jerk reaction to a single quarter of less premium written and I think we are -- we've had the fortunate challenge of seeing our retained earnings grow at a rate that has exceeded our net written premium.

And so as a result that is what's causing the operating leverage to come down. We did in the third quarter as we had previously indicated take our quota share for American consumer service and Gateway down from 15% to the minimum 5% allowable under that treaty.

So that was the first step that we did take as we saw the premium levels flatten out at least in the near-term. Obviously when we do see a return to growth we will be able to absorb some of that without taking the quota share back up. Obviously what we do in future quarters will be dictated by what we actually see in terms of premium volume written at our expected target underwriting margins.

But that will be the first thing that we would look at is how can we manage operating leverage through the use of the quota share. As we touched on in connection with Global Liberty, Global Liberty use of quota share is still relatively higher at 25%, which at this point, we think is consistent with where we need to keep it to support the current rating.

However as we continue to generate profitable business within Global Liberty we may have the opportunity to ratchet that down as well. We do have the same kind of quota share program in place with Global Liberty where we can electively increase or decrease the amount utilized from a minimum of 5% up to a maximum of 50%.

So it's definitely good capital management tool and then in terms of the future outlook, again we would always look at any excess capital as potential dry-powder to support a strategic acquisition as a best use of that capital but as I touched on earlier if we do not the strategic applications to pursue M&A at the right valuation and if we had a longer-term view that growth in fact was going to be permanently lower.

We would definitely look at the most efficient way to return that capital, but again at this point, we do not believe that our segment is softening. We do not believe that we have proportionate market share and we do expect that we will continue to be able to use that capital both to support organic and M&A related growth.

So that is our current perspective on that, but we definitely have flexibility in terms of what we can do, as we continue to see what happens in the real world as we go forward.

Wally Walker

Okay. Thank you.

Scott Wollney

Thanks Wally.

Operator

Thank you. Our next question is a follow-up question from the line of Paul Newsome with Sandler O'Neill. Please proceed with your question.

Paul Newsome

Just a couple of modeling questions, one is how should we think prospectively about your effective tax rate? Most companies use their own and start below the statutory 35, but to how should we think of your intact. What's the right number?

Scott Wollney

I would suggest 35% Paul. You know that we had some issues some -- some adjustments that were nontaxable during this year, specifically related to the acquisition accounting, but I think normalized it's going to end up being 35%.

Paul Newsome

And then run rate for investment income itself bounced around quite a bit but was a very strong number in the last quarter, how should we think about that?

Scott Wollney

I would suggest the run rate is going to be probably about 2% to 2.2% in terms of yield on the invested assets. So I would range it and gauge it probably $1.1 million to $1.3 million in terms of income generated on the portfolio.

And then on top of that, there's going to be realized gains and losses opportunistically.

Paul Newsome

Great. That's it. Thank you.

Scott Wollney

Sure.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to management for closing comments.

Scott Wollney

Okay. Well thank you very much for all the questions. We did hit on a lot of important points and thanks everybody for joining us. We certainly look forward to speaking with you again in the future.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

■ END –

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