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AFH - Q2 2017 Atlas Financial Holdings Inc Earnings Call

EVENT DATE/TIME: AUGUST 08, 2017 / 12:30PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the Atlas Financial Holdings 2017 Q2 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Scott Wollney, Chief Executive Officer for Atlas Financial. Thank you, Mr. Wollney. You may begin.

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thank you, very much, Michelle, and good morning, everyone. With me today is called Paul Romano, our Vice President and CFO. Atlas reported a strong second quarter highlighted by growth in book value driven by better-than-industry operating margin on higher premiums and return-on-equity in the high teens resulting from our core fundamental operating results. I'll now turn it over to Paul to provide details about our quarterly materials and review our policy regarding forward-looking statements.

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

Thank you, Scott, and good morning everyone. Yesterday, after market closed, Atlas issued its 2017 second 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. Before looking events and circumstances on this call may not occur and could differ materially as a result of known and unknown risk factors of and uncertainties affecting the companies, including risks regarding the insurance industry, economic factors and equity markets generally and the risk factors discussed in the Risk Factors section of its Form 10-K for the year ended December 31, 2016.

No forward-looking statements 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 a comely 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.

While 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 US dollars unless otherwise indicated.

We will be using a slide show presentation in conjunction with this call. Though we have may address a few slides specifically, in generally -- in general we review this presentation as an accompaniment. Feel free to follow along as we will follow the basic structure of the 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 D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thanks, Paul. In our presentation today, we highlight many areas where our capabilities as a hyper focused specialist enabled Atlas to properly evaluate risk, price business and managed plans to deliver fundamentally strong quarter from an underwriting perspective. Simultaneously, we maintained industry-leading expense ratios as we continue to reinvest in our business. Operationally, our dual objectives are to continuously improved the use of technology and analytics to ensure that we optimize results in the near term based on the considerable expertise across our team and also position our business for future success as our niche and auto insurance generally continues to evolve.

For those of you following along on our slide deck, as Paul mentioned, we will begin on Slide 3.

I'll review our growth and specialized target market in a moment, but wanted a highlight a few specific financial measures to start things off. Net income after-tax was $5.5 million or $0.45 per diluted common share. This compares with $4.9 million or $0.38 in last year's second quarter. Our combined ratio is a very healthy 86.2%, which was indicative of our commitment to generating an above average underwriting profit and our highly specialized market. We're especially pleased to report this result at a time where commercial auto insurance in general is facing well-publicized challenges. Our unique focus in business model is a critical differentiation factor in this regard.

Book value per common share on June 30, 2017, was $11.50 compared to $11.50 -- $10.54 as of December 31, 2016, and $11.27 as of June 30, 2016. And importantly, we achieved an annualized return on equity of 16.2% in the second quarter of 2017 compared to 14% in the prior year. This considerably exceeded the property in casualty industry above and beyond our goal of 500 to 1000 basis points. Paul will provide more detail regarding this financial results later in the call.

One of the core tenants of the foundation of Atlas' business model has always been prioritizing return-on-equity and performance over top line growth. A year ago, we took steps we thought were appropriate as the price leader that did impact our quarterly growth rate. We undertook these activities, thoughtfully understanding that there were other factors that could impact our top line in the near term, most significantly reduction in number of taxes in operation has become obvious throughout 2017. Our expectation a year ago was that the commercial auto market will continue hardened and the overall market size increase in public auto driven by the increase in transportation network company related rights as well as positive changes in the taxi space would ultimately result in heightened demand. It also tested price (inaudible) ahead of the launch of our Atlas X point-of-sale-based predictive analytics tool for own operated in small fleets. A year later, we are benefiting from a higher premiums to this level resulting from these transaction and are out again seeing growth at higher expected returns and deployed capital into the evolving market detailed on Slide 4. In the first half of 2017, we saw improvements in persistency with retention levels holding a target levels, while we took positive rate in the market for existing business. We are now seeing relative stability in the taxi segment and are beginning to win accounts in emerging market of professional drivers under dispatch either part or full-time via transportation network companies. Through all out of this, our para-transit market has maintained consistent and stable growth as well.

Overall, new business application volumes are higher-than-expected allowing us to set price levels that are resulting in lower hit ratios, but higher average premiums for those accounts identified as potentially most profitable. In total, Atlas' gross written premiums increased in the quarter by 18.6% to $57.4 million compared to $48.4 million for the prior-year period. Our focus has always been the price each segment of our business to a similar expected loss ratio. As a result, relative market share by segment and geography will shift as the market dynamics change. Within our overall growth, there has been a meaningful shift in mix. On slide 5 you'll see that 3 years ago, taxi was our largest business segment and now we have shifted as the market has evolved with almost half of our business coming from the limo and livery. Our average policy size in terms of vehicles has also come down slightly over the years within increasing numbers of owner operators, which has always been a sweet spot for us. We believe that our value proposition resonates equally across each of our target market segments. As the niche of people moving people or things and light vehicles evolves, we will build on this dynamic by continuing to provide the tried and true value drivers in the area of servicing plans coupled with increasing the use of technology to connect with and evaluate our customers. Our goal is to create a win-win situation where our clients insurance cost can be reduced to better driving behaviors, while at the same time our underwriting margins can increase with less volatility. Ultimately, our goal is to help reduce the number and severity of accidents related to human controlled vehicles, as we position Atlas as a leader on the path towards more autonomous vehicles in the commercial space over the longer term.

Let me take a few moments and break down our growth by geography as summarized on slide 6. In the second quarter, New York was again our largest markets followed by California, which grew over 40%. In general, our top 10 markets are similar to what you'd imagine the top 10 public auto markets to be based on population and density. Today we have approximately 12% market penetration and still have considerable room to grow in terms of market share. We have stated in the past that we believe Atlas could achieve an approximate 20% proportionate market share in each of the 42 states in Washington, D.C, where we actively write, without having to be price aggressive.

Provided that the market conditions in those areas for that pricing standards to achieve the underwriting profits we require, we expect to continue to grow our business with expanding margin. That said, our business is shrinking in certain geographic areas with a rate need we have identified prices us out of the market, Michigan as an example. While we unfortunately believe the challenges in that state will continue in the near-term resulting in our in-force business dropping to below 1%, there are other states were business slowed earlier this year as a result of our pricing actions where competition may follow our leadership enabling growth to resume in the coming quarters. We are monitoring trends via segment and geography closely. Florida as an example of the state that had been challenged for many years, starting in the early 2000s. We are currently writing a small amount of business with primarily high deductible clients who are committed to using in-vehicle technology to better manage fraud. The result of this evaluation over time will allow us to make an informed decision about potentially writing more business in the state in the future. For every premium dollar we write, we are effectively deploying $0.50 of capital. To maximize overall return-on-equity, we focus on optimizing the return on every dollar of capital we deploy. On slide 7, we provide the most recent industry data available from the Council of insurance agents and brokers, which illustrates the trends in commercial auto overall. This data demonstrates that the end of the industry is taking consistent rate increases and even more so in the smaller account sizes, which make up the majority of Atlas' business. During the period of 2012 to 2015, commercial auto generally begun to hardened, consistent with other large segment of property and casualty insurance. While some thought that commercial auto would soften along with the rest of the industry in 2016, we actually saw (inaudible) driven by the industry rate need at the end of the year. In our specialty niche, we have a great deal of visibility as to what rate changes are appropriate and what are the competitive dynamics may be changing in our markets. We are not seeing any large new market participant coming in as a disruptor at this time. Given the specialized nature of our model and the increasing transactional nature of the drivers in the niche, we think there's a meaningful (inaudible) around Atlas' business supporting our ability to increase market share profitably and the rates would be appropriate as a commercial auto segments continue to harden. We have been relatively conservative and taking credit for rate changes in the past few quarters and continue to carry our loss ratio at the midpoint of the 59% to 61% range indicated on our last call. However, we have successfully implemented average rate increases in the mid to high single-digit ranges and do you expect to realize the benefit of this activity over time. As shown on Slide 8, our total in-force premium has grown to over $264 million at the end of the second quarter. Seasonality will have an impact in terms of written premium and our unearned premium reserves in any given quarter. Although this should continue to flatten, as our book becomes more diversified geographically. On the next slide, we show the significant reduction of in-force premium in Michigan, which is now become a very small proportion of our overall book as compared to what it was a few years ago. As I mentioned, we are on track to see the percentage of our overall book of business in Michigan drop to below 1% this year. While Michigan claims will continue to run off over time, as of June 30, 2017, open claim inventory related to this state has been reduced by approximately 16% compared to year-end 2016 was approximately 450 pending claims.

While we are certainly not the only commercial auto insurance company that evaluates and reacts to changes in market conditions, I do believe that Atlas' ability to identify such changes early based on our specialty focus coupled with the ability and willingness to react quickly, amidst changing conditions is a meaningful relative strength. Our business is shifted considerably over the past 3 years, including market expansion and driver transitions due to the evolution of transportation network companies coupled with the change in competitive dynamic, as the commercial auto segment hardened, begin to soften and then hardened again. Our team has demonstrated that while we will not arbitrarily chase business, we will thoughtfully leverage our competitive strengths to insure profitable growth over the long term and in the face of changing dynamics. Now I'll once again turn it over to Paul to highlight a few key items related to our capital allocation and for more detailed review of our financial results. I will then return for concluding remarks prior to Q&A.

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

Thanks, Scott. As always, I encourage each of you to review our filings, our slideshow presentation and to reach out to Scott or myself with any questions.

We recognize the importance of being a good (inaudible) of capital and always seek the most efficient means of managing our capital, based on growth opportunities and changing market dynamics. As shown on slide 10, at June 30, 2017, our operating leverage as measured by net written premium to combined statutory surplus was roughly 1.8 to 1 as indicated in the top chart. Managing our statutory operating leverage is important from both regulatory and rating agency perspectives. At the same time, we are focused on optimizing operating leverage on the GAAP side. Continued growth is the primary reason that our statutory operating leverage is relatively higher than the indicated GAAP leverage. This is the result of the fact that statutory accounting requires acquisition cost via expense against written premium, while GAAP treatment requires that these expenses be deferred and amortized over the earnings cycle of the underlying policies. Consequently, these expenses reduce statutory surplus in the short term, resulting in higher operating leverage against the same premium base. During the first quarter of 2017, we renewed our reinsurance programs for an additional 2 years with similar terms to those in-force at the end of 2016. In the second quarter, we held our quota share reinsurance cession rates constant at 5% -- at 25% of subject written premium for the ASI pool companies and global liberty, respectively.

These reinsurance arrangements provide Atlas with considerable flexibility and an attractive effective cost of capital. As announced earlier this year, we successfully closed at $25 million public bond offering of senior unsecured notes due in 2022 in the quarter. These notes are publicly traded under the ticker AFHBL. We feel this transaction extended the tenure of our debt in a way of better match, as the growth opportunities we see ahead as well as fixing our interest rate at 6.625%, at a time where many feel interest rates may begin to rise. In July, we made our first interest payment following this issuance.

We used some of the net proceeds from the offering in cash-on-hand to pay the $19.4 million in outstanding indebtedness under our secured credit facility, which was terminated in April. We now have addition capital available for repurchase-ly of common stock, supporting organic growth, potential acquisitions as well as from general corporate purposes. In the second quarter, we did implement in the form of 10 B 5-1 program as part of the previously announced share repurchased program of up to 650,000 shares of common stock authorized by our Board of Directors. This plan is with a well-respected broker dealer, that will ensure company can execute an opportunistic share repurchases when justified. We provided a purchase price algorithm to the broker-dealer, which is based on a relative costs and expected return on capital deployed in our business. It should not be interpreted as a precede valuation of our stock at any given time. What we did believe our stock was undervalued in the quarter based on regression of our ROE and growth relative to peers, we did not purchase any shares at the capital allocation based metrics I described were not triggered. These -- There were points in time earlier in the year where our stock price would have triggered repurchases, however, due to the black out restrictions, the company was unable to implement the plan until after the first quarter's earnings release. This program remains in place. Our authorized broker-dealer can now purchase through blackout utilizing the algorithm, those placed -- they will put in place outside in black out period and is subject to SEC rules. Any shares repurchased under this arrangement will be funded using the capitals with company's working capital. We are committed to self funding organic growth. As we've communicated in the past, we intend to ensure that the various tools we've implemented to manage operating leverage are consistently evaluated to maximize ROE overtime. Moving to the financial results section. Starting on Page 13, as Scott mentioned, it was an excellent quarter for Atlas. Gross premiums written increased 18.6% to $57.4 million and at June 30, 2017, in-force premium was at its highest point in the company's history. Underwriting profit, which is income produced prior to investment income, increased 17.2% to $7.5 million from $6.4 million in the prior-year period. Net income was $5.5 million or $0.45 per common share diluted in the second quarter of 2017 compared to $4.9 million or $0.38 per common share diluted representing a $0.07 or 18.4% increase from the second quarter of 2016.

Annualized return on equity was 16.2% compared to 14% in the prior-year quarter. Slide 14 breaks up the key components of our combined ratio after accounting for the effects in the changes in reinsurance treaties that Scott referred to earlier. The loss ratio related to net claims incurred for the 3-month period ended June 30, 2017, was 60.1% compared to 58.8% for the 3-month period ended June 30, 2016. The loss ratio increased slightly from the prior-year period, primarily due to the company's ongoing review of underwriting profitability by state and product. It was down quarter-over-quarter when compared to the 60.5%, as reported in the first quarter of 2017. The underwriting expense ratio for the 3-month period ended June 30, 2017, was 26.1% compared to 26% from 3-month ended June 30, 2016. Atlas' underwriting expense ratio, excluding the impact of share-based compensation expenses and expenses related to stock purchase agreements, is 25.6%, and continues to fall within the aspirational target range of 24.5% to 26.5% established early in Atlas' existence. Going forward, our expectation is that continuous improvement initiatives will enable us to modestly improve this ratio on an annualized basis, while at the same time, we reinvest appropriately in the technology and analytics initiatives that Scott described.

On a year-to-date basis, the amount of this type of investment made up approximately half of 1% of our overall expense ratio. Atlas' combined ratio for the 3-month period ended June 30, 2017, was 86.2% compared to 84.8% for the 3-month period ended June 30, 2016. The primary basis for the difference was the company's decision to strengthen reserves and loss ratio at the end of 2016. Other than the minimum amount of development related to assigned risk in our off businesses, there was no prior year reserve strengthening or release in the second quarter of 2017.

Slide 15 provides both annual and quarterly trend information in terms of our combined ratio and its components. As we've indicated on prior calls, we feel that year-over-year comparisons are more useful than quarter-over-quarter, given the nature of our business. As illustrated, we continue to improve operating efficiencies on a year-over-year basis as measured by our expense ratio.

Slide 16 and 17 provide an overview of our overall balance sheet strength and our cash and invested assets. Net investment income net of investment expenses increased by 14% to $1.3 million in 3-months ended December -- June 30, 2017, compared to $1.1 million in the prior-year period. The increase in investments income in the prior-year period is the result of higher returns on our other than fixed income investments, partially offset by lower interest income on our fixed income securities portfolio. The gross annualized yield on our fixed income portfolio was 2.3% and 2% for the 3-month period ended June 30, 2017 and '16, respectively.

Book value per common share on June 30, 2017, was $11.50 compared to $10.54 as of December 31, 2016 and $11.27 as of June 30, 2016. A detailed summary of changes to book value can be found on Slide 18.

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

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Thanks again, Paul. Before we open it up for questions, I would like to discuss how Atlas' utilizing technology and analytics from the longer-term comparative advantage standpoint.

Our annual Investor Day in May, we welcomed several industry experts, distribution partners and customers that were present to explain the impact of advanced telematics and machine learning-based predictive analytics has having on our industry. We also shared real life examples of how our commitments to do these initiatives is positively impacting Atlas' internal operating efficiencies, distribution channel engagements and customer experience. On Slide 20, we see a comparison of our sequential pricing changes relative to ISO, which serves as a proxy for the price change implemented by the majority of our competitors. As we've touched on before, Atlas began the integration of analytics tools directly into our point-of-sales system in the second half of last year. Our modeling, which was initially billed based on deep existing data sets, is now being refreshed over time based on incremental telematic and other data that we are committing. This implementation is designed to further expand our underwriting margin relative to risk. Incrementally, we feel that the market trends suggests additional industry-wide rate increases in commercial auto in the next year and potentially beyond. We believe that the combination of our modeling and the market cycle will enable us to further differentiate from the industry in a positive way. It will enable us to optimize more than hard market conditions and profitably for more market share in the face of increased competition in future soft markets. Slide 21, highlights the persistency and hit ratio dynamics I referenced earlier. Our goal is to continue to maintain renewals at current target levels and also continue to focus on return on deployed capital levels for new business in the face of increased demand, which is at the highest levels we've seen since the inception of Atlas.

Slide 22 provides an overview of both premium and policy count distribution based on modeled underwriting scores. As you can see, while overall premiums follow a relatively Bell shaped distribution, the bias of policies written is towards the right, which are the score bands expected to generate the best underwriting profit.

We are generally competing against company's using a commodity approach following standardized pricing. The relativity identified by our models enables us to offer discounts to those accounts whose scores indicate that they are less risky, while diverting those accounts that are more risky.

Then another factor is that we will win more of the better accounts at rate levels that will increase overall underwriting margin as seen by the higher hit ratios on the right side of the chart, while writing fewer potentially less profitable accounts.

Now on its own that is valuable. However,, we believe that when you tie an Atlas' strong value proposition, which is always enabled us to charge relatively higher price as compared to less specialized competition overall return on equity potential is even greater. Advanced telematics will continue to refine our capabilities as well.

Over the second half of 2017, Atlas' principal focus is to continue to profitably grow market share, while we simultaneously focus on the incremental integration of technology and analytics to optimize the entire ecosystem among our company, our agents and our insurance. Our strategic objective is to ensure that as the industry trends evolves, Atlas' best position to leverage our heritage and amplify our capabilities to ensure that we are able to continue to lead the industry as measured by return-on-equity exceeding our peers by at least 500 to 1000 basis points. When coupled with our repository data and claims procedures, we expect this approach to increase our relevance to the market and reduce volatility and loss ratios over time, while simultaneously identifying potential segments and markets, where asymmetric returns on deployed capital can be achieved. We expect this to allow Atlas to growing in the right markets, consistent with our disciplined commitment to better than industry bottom line results. During the second quarter, we reported net annualized ROE in the high teens at 16.2% annualized and feel well-positioned to improved based on the current market environment. At this time, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jon Newsome with Sandler O'Neill.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior Insurance Analyst*

Could you give us a little bit more thoughts on the competitive environment broadly we're, obviously, hearing price increasings in commercial auto more broadly. But I don't want to leave the question, but it does seem we're seeing some minor changes in the overall commercial market and I just wanted to see if you've seen any sort of changes in the last quarter or so?

Paul A. Romano - *Atlas Financial Holdings, Inc. - CFO and VP*

Yes, I thing, I responded to 3 different areas. The first thing our specific competitive environment in our current niche. We are not seeing any signs of significant new entrants, the managing general agents, who in softer markets, tended to be price aggressive, have really limited access to underwriting partners and given the climate in commercial auto, we don't think there's any significant reason to believe that during the next year or potentially further, there are going to have any more success. So that's a strong positive, because in the absence of MG being price aggressive in our niche, we're tending to compete with generally local, smaller privately owned companies, who will tend to follow price leadership, which is what we ultimately saw in the second half of '16 and continue to see this year. So that's a really encouraging thing in terms of our traditional business in our current niche. The second thing, that we're seeing more probably in the commercial auto is that larger general is due to appear to be reunderwriting there books of business, which often means that they will move away from smaller more specialized segments. And so we're optimistic that that could provide us with an opportunity to pursue some horizontal expansion, which is always been a part of our strategy and something that we generally indicated we thought we would pursue in softer markets because that tends to be when those opportunities arise. But given this sort of interesting dynamics where most of property-casualty is softening, but commercial auto more broadly is hardening and these books are being re-underwritten, could free up some opportunities there. So that's the second thing I'd say we're seeing. And the third thing is we for the first time at least in my 25 years of experience in this industry, I think we're seeing some larger generalist potentially decoupling, commercial auto from business auto policies. In other words, historically because commercial auto for 15 or 20 years had outperformed property yesterday up to a few years ago larger general estimate acquired that the small business owner wanted to buy commercial auto, for example a plumber who wanted to ensure their plumbers van had to bundle that with there business auto policy with the business policy rather or at least provided them with pretty significant incentives to do so. And we're starting to see that certain larger underwriters are actually beginning to "the commercial auto monoline" because they're looking for pretty significant rate increases and are willing to continue writing the business package policy without it. So it's pretty early in terms of starting to see that happen, but if it does, it could again change the dynamic where there could be relatively large uniform universe of monoline commercial auto business, that we could potentially explore a specialist in that segment. But again, kind of tying it back to our business today, given that trends, it seems unlikely that one of those large generalist is going to look to a highly transactional, highly specialized, high frequency niche like ours, as a place to deploy capital, while there are in the process of reunderwriting and sort of decoupling their books of business.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior Insurance Analyst*

That's great. Another (inaudible) on Michigan, any lessons learned that we can think about there?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

I think the key is, we always want to make sure that we're watching all states where we're active in and identifying changes as quickly as we possibly can. The implementation of the machine learning base predictive analytics in claims, in particular which we launched in the second half of last year, establishes product foundation that will allow us to identify those kind of things faster than we did in the past. And so if he could have had those tools in placed 3 years ago, I think, we would have identified some of the things we saw in 2016 a little bit earlier. But again, that's a scenario where going forward, we're going to use that as a learning and make sure that we can fully leverage those tools. Other than that, it is a reminder that markets change and it can change quickly. And so it just reminds us that we need to be very diligent to keep an eye on those things. And we're going to see some states improve in the short-run and we're going to see others get worse. I've highlighted in the formal comments. We're looking at Florida, which have been very challenge state and very cautiously's testing the waters to see whether or not the market improving there's some reason they think there might have been. On the other hand other, there are some other states where based on the current competitive environment, we're writing less business not because there's something wrong with the state in terms of the environmental type things we saw in Michigan, but because the competitive environment is just not hardened as much as other states. And so in those circumstances, we're again allowing the business to potentially shrink in the short run with the idea that we want to show price leadership and ultimately, we think competitors will follow. So the key take away is just is, we need to continue to be very diligent about watching changes in every state, good or bad and reacting very quickly. And remind ourselves and all of our stakeholders that that's why it's important for us not to tether our targets to our top line goal, because in the end, we've always felt that we need to let the top line fluctuate with a focused commitment on the bottom line underwriting margin and ultimately return-on- equity.

Operator

Our next question comes from the line of Frederick Shepherd with Capital Returns Management.

Unidentified Analyst

Are there any other PNC initiative in the pipeline like maybe some Mobileye in the first quarter? And how should we think about modeling that either in the back half of the year or in the years?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So we have telematics-based initiatives underway, primarily with 3 providers, all of which have impressed by those providers, Mobileye being one of them. And so each of those initiatives we believe will help us target opportunities to write more profitable business for different reasons. We talked a lot on our Investor Day about the fact that we don't think that there's a single best telematics solution for everybody, but we do believe that we can identify problems to be solved or opportunities to be in pursued in different segments of our business for different reasons. And our goal has been defined in the best solutions for each of those problems. And so we do feel very comfortable that we're going to continue to be able to benefit from those initiatives. I would not want to encourage anybody to expect us to write big chunk of business in a given quarter, like we did in the first quarter. Although, we do have a number of those potential prospects in the pipeline. And so I think the important thing is that we're very focused on pursuing those initiatives. We feel very good about the telematics and technology partners that we've identified. And absolutely think that over time, those are going to be critical to the ongoing success of our business and it will be critical differentiators between our company as a specialist and more broader sort of focus generalist, but as with any kind of initiative that's large-scale in relatively long term, there may be certain successes in a given quarter or there may not be. And so I'd want to discourage anyone from expecting kind of the big elephant hunting to result in big chunks of premium in any given quarter. But like I said, over time, we absolutely believe that we're going to benefit significantly, both in terms of expanding margin by leveraging those initiatives in the telematics data and other in-vehicle technology based information that we're gathering now. So that'll help us across our whole book and then it also will position us well to capture some of those large accounts, particularly some of the big operators who are now providing vehicles to TNC drivers because we can really demonstrate that we can do things that other insurers that aren't able to or aren't willing to.

Unidentified Analyst

Great. And It sounds like you're pretty happy with the data you're collecting from these initiatives in terms of predictive model usage. I guess, one, do you think it's sufficiently credible for predictive purposes? And two, are you supplementing the data you're collecting with other sources?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So yes, and yes. So we have only picked companies that we've added in and really do believe that the data that they're collecting is credible. We looked at dozens of potential alternatives and have selected only those that we're highly confident in, both in terms of the quality of their technology and and it's relevance coupled with ultimately price point and the other things that can be critical to make a good idea of a good business model. We want to be partnered with companies that have the capability to be very successful in their own right over the long run. Also we believe we can help them become successful. And that's really where the second part of your question comes into play. So the telematics data itself is often very helpful to evaluate the type of behavior, potentially given even the truck drive behavior, captured video, which can be critical in terms of resolution of claims, identification of (inaudible) versus (inaudible) claims. But the one thing that the technology companies themselves can't do is to determine impact on the combination of loss frequency and loss severity to really quantify the return-on-investment that their technology can produce. And so that's where our partnership with them is really valuable because they can help us better understand how the technology can be used, we can help guide them in terms of things that they can do to optimize its benefit to us. And then, we can ultimately work together to really validate what the return on investment is because that's can be at the heart of what creates consumer demand and also our ability to expand margins, while at the same time giving people premium incentive to want to move their business to us and introduce the technology. So I think the key really is the combination of both having really credible downstream data and really quality technology and analytics. And then ultimately, marrying that up with the data that we have, which is very difficult to accumulate and really has been accumulated over decades by the insurance subsidiaries that Atlas has acquired. So it's really the combination of both things that are very going to be critical for the future success.

Unidentified Analyst

Great. And just on the gross you noted in California. Is there anything particular that's driving that?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

You know, we've mentioned before, California was an important large state and where one we have relatively low market penetration. So our line of market penetration about 12%, it's probably about half of that in California. And so our ability to capture market share in California is to a great extent, relatively -- I won't say easier, but it is certainly easier to go up from 5% to 10% market share than it is to go from 10% to 15%. So a lot of I think is relative market share and it's a state that we believe is currently very favorable and it's one that we've been very active and pursuing.

Unidentified Analyst

Great. And then just real quick on back to Michigan. What is the reserve level there? And is it running expectation? And then, I guess, could you maybe provide some detail around how many claims are still open, maybe what's the new trend current but the trend of new claims coming through to lower? And I do know you mentioned Florida as you're watching what are there any other states in pretty good that we focused on?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Yet, so we don't typically provide specific reserve levels on a state-by-state basis in one dollar terms but I can tell you that the result levels that we established at the year-end '16 for Michigan to appear to be holding up consistent with the expectations we had on severity in Michigan seems to be flattening out against is based on sort of the early information we had in the first half of the year as I touched on the inventory claim count has dropped 16% since the end of 2016. We currently have about 450 claims open for Michigan in terms of the third-party (inaudible) and PIP claim, and we are seeing that inventory declining. So claim closure rate is definitely exceeding the rate of inbound claims, which is slowing dramatically. The last year, we saw the biggest amount of claims settlement that we've seen historically and probably will see based on the fact that there was 3 year statute missed under Michigan and a lot of that exposure in that state for us was created in 2013 in terms of claims made against 2012 and 2013 accident years. And so now that, that 3 year statute now way had one of the biggest in-force exposures. That is also been a result in fewer claims coming in, especially bigger over claims. So we do have a team of people who are focused specifically on running off those older Michigan claims, and we feel confident that they are doing the right job. In terms of Florida, I guess, I said it's an environment that has been challenged, but it's a large market and it's one that has the potential to be profitable especially at current rates. But before we just jump in, we wanted to test the waters and partnered with a couple of accounts that want to have high deductibles are committed to use in-vehicle technology to make sure that we have the tools necessary to fight the kind of fraud that we'd be concerned about in Florida. And so -- so far those accounts have actually been running very profitably. But as I said, we're really looking at that as a test. And so do not expect us to write a lot of business there in the near term, but I just wanted to highlight the fact that we're always looking at every state in terms of potential growth and/or shrinking based on the condition of the market and the condition of the state for other reasons. But there are no other states that I would highlight as having state level trend that we're either concerned about or we think is changing dramatically. There are couple of states that you'll notice in our materials where the written premiums in the quarter shrank generally those will be we example of that in that state there were couple of large accounts that we raised rates on because of some accounts specific loss trend issues and a local (inaudible) company was price aggressive and took that business at lower rates than we're willing to write. And so that's really the explanation. It doesn't have to do with the state specific trend, it's really more competitive environment situation. And you know as we've always said, we're not going to chase business just because competitors either being price aggressive or naive in terms of the pricing. So those are couple of examples, but again, nothing that I would highlight is being sort of consistent with what the dramatic issue we saw in Michigan last year.

Operator

Our next session comes from Brian Hollenden with Sidoti & Company.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

Within your delivery in limo business, how much of those premiums are related to vehicles used for creating sprites? And how much are related to premiums for full time TNT drivers?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So the breakdown is difficult to quantify because many of the delivery operators do both. Many of the professionally licensed or commercially licensed professional drivers because they are able to be on an operators in a traditional sense will have their own group of customers and will also be get writes from transportation network companies like Uber under the Uber Black and Uber SUV service to fill extra time. Or in some cases, if enables a commercially licensed professional driver to more quickly become an owner operator because they're able to initially rely on transportation network companies to provide in a freights to cover their operating costs. And then, hope to cultivate their own direct customers where they'll make more more money because they don't want to pay the transportation companies over time. And so we really think both of those things happening within our book of business. In terms of driver transition, last year we saw a pretty significant amount of drivers leaving our taxi policies and showing up 6 or 12 months later on livery policy. And we have seen that transition slowdown to about half the rate we saw last year. So again that's consistent with the view that, that sort of driver transition from taxi to livery is stabilizing. But we are continuing to see livery space grow based on the incremental rides that are coming into the market. And the fact that they're also drivers who are not traditional taxi drivers or livery drivers, who are becoming drivers trying to drive for Uber, for example, decide but ask service deciding to they like it as vividly and ultimately getting commercially licensed so that they can make more money driving for Uber Black or SUV where they need to buy commercial auto insurance. And of course in New York, everybody driving for transportation network company has to buy commercial auto insurance. The most recent statistic I heard in New York is that there are about 600 new drivers a week coming into the transportation network segment. I've not seen the statistic kind of how long they stay, or how quickly they leave. But there is definitely still net growth in terms of overall rides in the New York market as well. So (inaudible) it does give you some context, but again it's difficult to quantify the prearranged versus transportation network dispatch rides because most of these operators are actually doing both. To move the commercially licensed ones.

Brian Christopher Hollenden - *Sidoti & Company, LLC - Research Analyst*

I appreciate that color. Can you talk about what drove sort of 50% or so increase in para-transit year-over-year? And assuming that market stays hard, what is vehicle count growth look like they're moving forward on an annualized basis?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Sure and I'll highlight just for the benefit of all the colors. If you look at our Q2 results in the quarter itself about 12.5% of our written premium with taxi, 39.8% with limo and 45.9% was para-transit. There's a small amount of assigned risk at sort of thing a business auto in the West than 2% making up the difference. On a year-to-date basis, that business mix, which is probably more consistent with what we expect on a full-year was about 17.1% taxi, 46.3% limo and 35.4% para-transit. So the relative growth on a quarter-over-quarter basis for limo was about 17.3% and para was 51.4%. So those were obviously our growth. For para-transit, I would not expect that growth rate on an annualized basis. There was some impact, I think, of seasonality or absence of seasonality on livery and in taxi in the quarter. But we consistently, over the last year or 2 saw para-transit grew between 30% and 40%, and we do see that growth trend in that line of business continuing. If being driven really by expanding market size so aging population longer life-span that really just increased overall demand for para-transit rides coupled with the fact that we are also capturing market share in that segment. It is a highly specialized segment. It requires very specific treatment given the nature of the passengers and the type of operation. It's an area that we have heavily invested in making sure that we have a great deal of expertise, like we've talked on prior calls about doing things like arranging a Council, made up with more than 50 lawyers who work with us and focus on that segment across the nation-wide distribution platform we have. Really making sure that we have best-in-class ability to sort of evaluate and manage claims is critical there. So it's really the growth of that overall segment and in our ability to compete effectively in the space where there are very few competitors because of the specialty nature of the business. And so while we see that competitive impacting all of our segment, it's probably strongest in the para-transit segment because of the particularly unique nature of that business.

Operator

Our next question come from the line of Bob Farnham with Boenning and Scattergood.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst*

I have a -- I think maybe continuing on that thing with the change in the business mix, is there much of a change the risk profile? Like does the livery and limo claims have a reason frequently trends which is the taxi that is exciting or just trying to figure out what changes was profile might look like with the mix?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Sure. So the first thing I'd comment on is, and we touched on this earlier on the call, is we do price all of our segments in each state to the same expected loss ratio. And so when we're doing our (inaudible) work and evaluating what our average rate should be, we're looking for the same return on deployed capital effectively across all the segments. So that is the goal. To do that, you'd then have to ultimately predict the expected loss cost and loss cost is the combination of frequency of claims times severity of claim. So when you start to look across the segments to your question, there are differences in both. Taxi, tended to have the highest frequency but lowest severity, limo and livery tended to be in the middle both in terms of frequency and severity and para-transit tends to have much lower severity but kind of -- much lower frequency but kind of much lower frequency. But in terms of the mixed shift, you would expect that a transition away from taxi towards livery would result in slightly lower frequency, but also potentially higher severity. But understand that all of that is built into our pricing, and so the business we're writing, we're expecting to write to the same target loss ratio, despite the fact that you are going to see changes in frequency and severity. So it's definitely something we're watching very closely. The fact that we're now using machine learning-based predictive analytics in our pricing models as well as our claims reserving process is going to help us monitor those changes in severity and frequencies much more closely than we could have without those tools and is definitely something that would be a part of our regular pricing analysis as well. But it's a great question and those are definitely changes that we have to keep an eye on and make sure we're pricing to.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst*

Are right. Okay, thanks. And I guess, a question on how is into interstate's Summer down somewhere down New Jersey for last year just of some background as to what gives you the comfort to be able to expand as quickly as you can actually?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Well, some of it there is the word Hillary were obviously predominantly New York writer but New Jersey is right next door in the market did very, very knowledgeable about. So I think bringing them into our organization in 2015 helped to give us some intellectual capital that gave us incremental confidence there. And just in generally, it's the state that we've been actively writing in for a number of years and a lot of it is when the market becomes harder, our growth rate in the state where we've typically been priced higher than many of our competitors is going to result in growth not because we're pushing for growth, but because the market is just rising to the rate levels that we deem to be necessary to generate the kind of returns we're looking for. So I think in that state it's really a combination of having an additional expertise, which will give us the comfort. But then also, the fact that competitively as a market environment and sort of pricing to follow what had been price leadership and our part in the past and may have limited the amount of business we can write because we're seeing competitors would want right to put increase in rates in the past year or so.

Robert Edward Farnam - *Boenning and Scattergood, Inc., Research Division - Senior Research Analyst*

And just this phone predominantly northern New Jersey in certain I feel it's more New York area?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

I think there's a little PIP a lot of businesses. We know our own a friend have a specific percentage of business by municipal India, but generally speaking, all of our business is currently contradicted around the municipalities and just because that's the probability density is but a lot of it is can be related to that they deal of New Jersey that are effectively providing transportation in our you New York.

Operator

Our next session come from the line of Benjamin McFadden Square management.

Unidentified Analyst

The last question would be what I would like to explore and it is more than if you have any stage we are you see actual indications that competitors are following your price leadership, rather than the theoretical but eventually they showed and I think we just mentioned in New Jersey are you seeing that in other states are just as it rational or thought process that will have happen?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

When I think that losing it in more states, really. Given that in the first half of last year, we did raise average rate significantly I think it's like 20 in the deck we showed a sequential rate change as we made very good to ourselves and those lines of course invaded by state but effectively, you see that we raised great up into the double-digit range kind of 15% in the first half of the year, it did cause us to be less competitive from our pricing perspective we saw our premium volume drop. We've been back to off some of that we never took rate back down we just paused with incremental rate increase in the second have of the year and then as you can see the first of this year, we again raising rates, but continuing to have strong retention ratios on our existing business and history shows that we think are appropriate in terms of not quite of the target that we ultimately like but appropriate baster our expectations from optimizing return on deployed capital for new business. So I think in every state where we are growing, we have been raising rates and the fact that we are growing does suggest that competitors are actually falling. Thought product development teams to monitor competitors rate filings all that information to public and so we do watch the competitive environment state-by-state and they are evaluating that as part of their decision-making process and so I think I would suggest that in most states, our local competitors are falling price leadership. New York is probably an exception to that, we are there are local competitors they are particularly for taxi business have been pretty press aggressive with one another which is why we are not writing really any first-order types of business in New York right now but we are seeing or delivery states as you can differentiate particularly leveraging some of the teens related initiatives that you've talked in detail about before. So generally speaking, I say just that we're seeing focus -- we are seeing the theoretical potential for competitors to follow price leadership that we've talked to turn into reality and form of those 18% to 20% sort of organic growth that we've seen in the first half of this year.

Unidentified Analyst

Thank you and then one additional question. Are there any states with you are seeing new laws that affect the transportation network companies and requiring those ravens to have insurance that previously had requirements were not fit?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

We have not seen any municipalities outside of New York mandate that are transportation network drivers by commercial audits expedients we continue to believe that over time that will change, but I wouldn't want to put the date around that because it's difficult and I would just legislatures and local municipalities will ultimately decide to do. It does seem to be on their radar. Most states ultimately sort of adapted what's being described as the compromise legislation with the property-casualty in terms of association and transportation network companies sort of agreed on compromise which does not require that the nonprofessional nonprogramming drivers by commercial auto insurance, however, most states have also deferred to municipalities were historically limited to the taxi and limo industries to be able to provide local requirements, should they choose to. So the municipalities have the ability to make those decisions, whether they will do that and how quickly is difficult to know. But I think we can do to believe that for the same reason of the requirements exist today for the traditional operators, they'll ultimately implemented on the transportation network site. But in the meantime, we are focusing on the commercial opportunities to provide insurance either to those operators that are required to, because of that type of categories they drive for an like to brag for SU we are even part-time drivers who just recognize that there is limited coverage or even no coverage for them at certain points in the process and should buy the insurance for commercial reasons commercial reasons whether or not they're being provided to bylaw and so, we do need to continue to pursue that avenue and then we be well-positioned as a regulatory change at mandate.

Operator

RLEC question comes from the line of Matt Carle adi with GMP Securities.

Matthew John Carletti - *JMP Securities LLC, Research Division - MD and Senior Analyst*

Scott, just had a quick one wanted to sort of back on Michigan and maybe a little PIP more qualitative just versus kind of your expectations that year and, if that's for a 6-month we are today and I think it's safe to say, things are worse in you expect this continued adverse but whether it's plain calendar the underlying loss trends, they kind of in line with what you are to support? Or are they better but because things are still so green you do not going to reflect them a number of just kind of cake?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Yes, I think it's definitely delighted with six months while it's encouraging that we're not seeing anything different that we expected which is a good fact. I think it's premature for us to do something positive as a result of that, so we are encouraged based on what we're seeing when we look at settlement come everything immense amounts I mean all the difference in any been so claims that are between zero and 25,000 between 25,000 and 50,000's and upgrade them 50,000. And in '17 we're seeing paid severities were down and all three segments my little PIP and so, again it's encouraging because the actual announcement we did at year-end and the assumptions we made with that we did not build any optimistic assumption that will go down. So again, it is encouraging but it's really too early I think to come to any conclusion on that. Obviously, if he saw anything negative, we might have been more proactive in doing something about that but other than being encouraged by the limited amount of initial information we have, I probably wouldn't go beyond that in terms of coming to any conclusions about this year.

Operator

Our final question is a follow-up from Frederick shiftwork from capital return management.

Unidentified Analyst

A couple of quick follows. Q1 and Q3 are heavy text premiums were things are with the specialist?

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

So for Q3, we are not giving any specific guidance in terms of renewals. We've never really done that and so, it's one as a matter of course you do not want to orient people around top line, but it is pretty active quarter. The biggest tax related renewal in the quarter is our access taxi program and so, that's the program in New York for people who will own 50 or more in values 100 Herzegovina amount of the last redemption more of which will greater acting in the GPA, that program has been very stable in terms of its participants and so, we do expect that to renew. I'm happy to -- I'm comfortable sharing that although, we are not going through the process gets to be clear and other than that, I would didn't speculate on what we can see in terms of premium buyout in the third quarter. But again, our focus has been making sure that we're pricing everything in writing all segments at levels that are that are optimized return on capital deployments support of that. But again, no reason to think that we do see a meaningful deviation from kind of the underlying organic growth that we've seen the first half of the year, but one to be very clear that should not be interpreted as a top line target and respect.

Operator

There are no further question at this time. I would like to turn the call back over to management for any closing remarks.

Scott D. Wollney - *Atlas Financial Holdings, Inc. - President, CEO & Director*

Rate. Thank you very much, Michelin and thank you, everyone. We're presenting at a few investors segment in this coming Monday and we look forward to seeing some of you there and fairly speaking with all of you again in November after our third quarter financial results.

Operator

Thank you benefits include through teleconference. You may just connect your lines at this time. thank you for your participation, and have a wonderful day.
