

Initiated 2026-09-28 · Price \$55.69 (as of 2026-09-25 close, stockanalysis.com) · Mkt cap \$5.11bn · Financials / specialty P&C insurance · Model: verified

Rating: Hold — Conviction: Low

RLI is one of the most consistent underwriters in US specialty insurance: 2025 was its 30th straight year of underwriting profit. It returns nearly all its earnings through special dividends. The cycle is turning against it, though. E&S property premium is falling market-wide, casualty (60% of premium) already runs at a ~98% combined ratio, and reserve releases flatter the headline 85.8%. At ~2.9x book and ~17x annualized operating earnings, a premium to W. R. Berkley, the price assumes discipline holds through the softening. The model's base case sits below the price, which argues against a Buy. It stops short of a Sell because the reported numbers have not yet deteriorated. Conviction is Low.

MODEL VALUE RANGE VS PRICE



Business overview

RLI writes specialty commercial and personal lines through wholesale and retail brokers in three segments. Casualty (H1 2026 GPW \$646mm) covers commercial excess, personal umbrella, transportation and professional lines. Property (\$354mm) covers E&S commercial property, marine and Hawaii homeowners. Surety is \$84mm. H1 2026 net premiums earned rose 3.5% to \$828.5mm. The combined ratio was 85.8%: casualty 98.2%, property 59.4%, surety 90.4%. That included \$61.6mm (7.4 points) of favorable prior-year development. Net investment income rose 16% to \$88.4mm on a \$4.9bn portfolio, of which ~\$1bn is equities, ~55% of book value. Earnings turn on property pricing, casualty loss trends and reserve releases, and the reinvestment yield.

Competition

RLI competes with W. R. Berkley, Kinsale, Skyward, Markel and the Lloyd's market in E&S, and increasingly with standard carriers returning to classes they had left. Industry stamping-office data show E&S property premium fell 13.7% in H1 2026 while transaction count rose 15.2%, a sign of rate compression. Non-professional liability rose 11.2% (WSIA, reported 2026-08-05). RLI's E&S property premium fell a smaller 6%, and it says submissions now go to "over 45 markets," with quoted rates "about the 2022 timeframe." Pressure shows up first in property price and then in casualty once capacity migrates. On stockanalysis (2026-09-25), W. R. Berkley trades at 2.64x book and 14.1x forward earnings, Kinsale at 3.70x and 15.6x, and Skyward at 1.92x and 10.5x. RLI trades at 2.92x book. Its 20.9x forward P/E is not comparable, because its 11.7x trailing figure includes investment gains.

Bull case

- 1. **Casualty keeps hardening.** Casualty premium rose 11% on ~10% rate. Personal umbrella rose 26% (17% rate) and transportation 19% (8% rate), while competitors pull back. Plays out if liability rates stay near double digits into 2027 and property premium stabilizes. *Model: npe_growth*
- 2. **Discipline holds the combined ratio in the mid 80s.** Property still runs at 57–59% even at 2022-era rates, and transportation claim counts are falling. Plays out if releases continue and the 2026 cat load stays moderate. *Model: combined_ratio*
- 3. **Investment income compounds.** New money yields 4.9%, ~60bp above book yield, and the \$300mm of 2036 notes adds float. Plays out if the 10Y stays near 5%. *Model: investment_yield*

Bear case

- 1. **Property softening spreads.** E&S property is already –13.7% market-wide, and standard carriers are re-entering. Plays out if liability rate increases fade in H2 2026, as management expects, and NPE shrinks in 2027. *Model: npe_growth*
- 2. **Casualty reserves turn.** Casualty is already at ~98% after releases, and social inflation on umbrella and transportation erodes redundancy. The combined ratio moves toward 95%. Plays out if prior-year development turns adverse in casualty. *Model: combined_ratio, cost_of_equity*
- 3. **The premium multiple compresses.** At 2.9x book against Berkley's 2.6x, a normalising ROE re-rates the stock. *Model: not in the value range. Insurer value comes from residual income on book, and multiple shocks move only the cross-checks, so this bullet is expressed through bear:2's combined ratio and cost of equity.*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
P/B (book \$19.09/share, June 2026)	2.92x	n/a (unverified)	WRB 2.64x · KNSL 3.70x · SKWD 1.92x	stockanalysis.com, 2026-09-25
Forward P/E (stockanalysis consensus)	20.9x (distorted; ~16.7x on annualized H1 operating EPS \$3.34)	Trailing 11.7x incl. gains	WRB 14.1x · KNSL 15.6x · SKWD 10.5x	stockanalysis.com, 2026-09-25; Q2 release
Combined ratio (GAAP)	85.8% H1 2026	83.6% FY2025; 83.4% H1 2025	n/a (unverified)	Q2 2026 and FY2025 releases
ROE (TTM, net income incl. gains)	25.2%	n/a (unverified)	WRB 20.2% · KNSL 30.3% · SKWD 17.3%	stockanalysis.com, 2026-09-25

Model-implied value range (from `model-summary.json` ; insurer module, residual income and justified P/BV, midpoints): Bear \$22.05 · Base \$47.09 · Bull \$77.67 per share, i.e. implied returns of –60.4% / –15.4% / +39.5% vs \$55.69. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits about 30% of the way from base to bull, so the market pays for a softer cycle than the base case assumes.

Re-rating. The two methods agree within 4% (residual income \$46.23, justified P/BV \$47.96). The base embeds a de-rating: justified P/BV of ~2.5x FY2025 book (\$19.29/share, est. value_b ÷ FY0 book per share), against 2.89x today on the same book, a 14% de-rating.

Tail. Casualty is ~60% of premium, so a harsher sensitivity was run on a scratch copy: NPE +2% / –4% / –3% / 0% / +2%, combined ratio 90% rising to 100% then 97%, investment growth near zero, a 3.3% yield and a 10.5% cost of equity. It gives \$12.54 (–77.5%).

Why Hold and not Sell. The base case is a forecast of the cycle, not an observation. Reported property margins (57–59%) leave room to absorb rate cuts, and investment income is rising 16–17%. The Q2 buyback at \$51.25, about \$12mm or 0.2% of market cap, is not a valuation endorsement. The two \$2.00 specials return capital; they are not growth.

Balance sheet: net leverage not meaningful. The only debt is \$300mm of 5.375% notes due 2036 (\$297.0mm carried), 0.57x FY0 pre-tax earnings plus interest and ~14% of debt plus book. Coverage is 32.7x. Cash is \$32.1mm, and there is no maturity before 2036. Ratings: n/a (unverified).

Model note: tier `full` , status `built` , verification `verified` (LibreOffice recalculation matched all 2,846 formula cells). No unverified inputs and no assumptions without basis. Scenario consistency is `OK` on all 14 rows.

- Base cost of equity (8.8%) carries a stated 200bp premium over CAPM (6.8% on a 0.33 beta).
- FY0 pre-tax includes investment gains, which forward years do not project. Equity-portfolio marks and AOCI are not modeled. In S1, S7a, S10 and S12 they are proxied through the cost of equity, because insurer value ignores multiple shocks.
- There is no EPS guidance. Base Y1 EPS of \$3.40 is close to annualized H1 operating EPS (\$3.34).

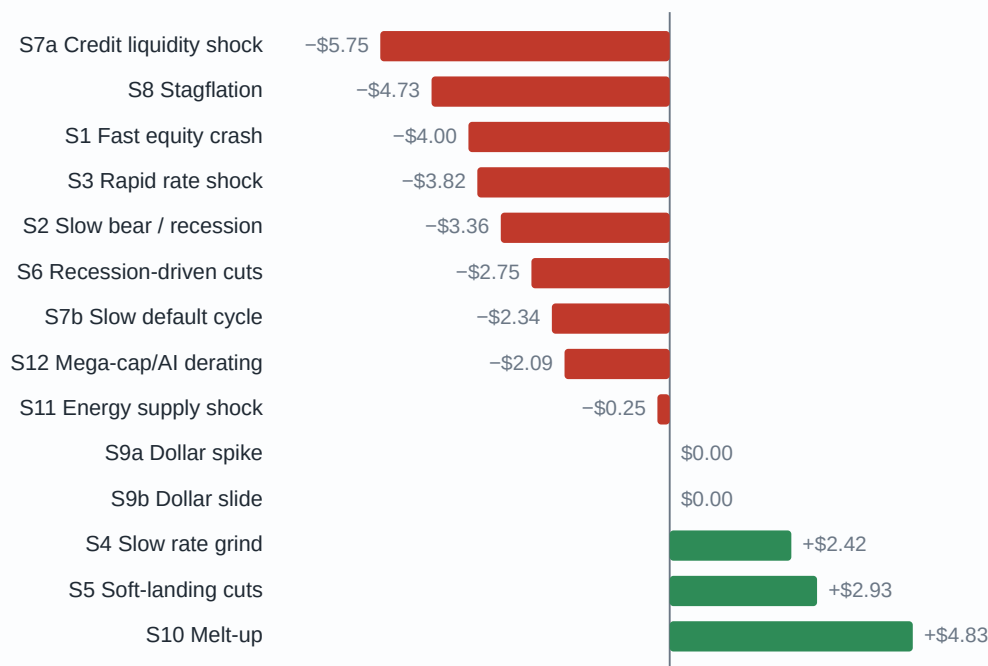
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Risk-premium spike and a mark on ~\$1bn of equities (proxied in cost of equity); no operating channel	Med	–\$4.00
S2 Slow bear / recession	–	Exposures shrink, yields fall, surety losses rise. Much milder than Base – Bear (\$25.04), because the bear case is a reserve and pricing cycle, and casualty losses are not recession-driven	Med	–\$3.36
S3 Rapid rate shock	±	Higher reinvestment yields vs a higher cost of equity; AOCI mark not modeled	Med	–\$3.82
S4 Slow rate grind	+	Portfolio reinvests higher over years; modest cost-of-equity drag	Low	+\$2.42
S5 Soft-landing cuts	±	Lower yields vs a lower cost of equity	Low	+\$2.93
S6 Recession-driven cuts	–	Yields fall and the insured base shrinks	Low	–\$2.75
S7a Credit liquidity shock	–	Risk-off; bond and equity marks (proxied)	Med	–\$5.75
S7b Slow default cycle	–	Surety losses on contractor defaults; portfolio credit losses	Low	–\$2.34
S8 Stagflation	–	Social and loss-cost inflation on umbrella and transportation outruns pricing; higher yields only partly offset	Med	–\$4.73
S9a Dollar spike	0	No material effect, not modeled; domestic insurer	—	\$0.00
S9b Dollar slide	0	No material effect, not modeled	—	\$0.00
S10 Melt-up	+	Lower cost of equity; equity-portfolio gains (proxied)	Med	+\$4.83
S11 Energy supply shock	–	Transportation and marine claim costs rise	Low	–\$0.25
S12 Mega-cap/AI derating	–	Equities are ~55% of book; the mark is proxied by +25bp on the cost of equity	Low	–\$2.09

No scenario moves base value by more than ~12%, so nothing is labelled High. **Currently active/on watch per the playbook:** `state.md` lists S3 as partially active; the macro log records all three legs crossed from 2026-09-24 (10Y 5.17% on 2026-09-25). S8, S10 and S11 are on watch. S3, S8 and S10 are Med here, and S11 Low.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if:

- Casualty combined ratio falls below ~95% with favorable development intact, and E&S property premium stabilizes; or
- The price falls toward ~2.3x book (~\$44) with reported results unchanged.

Downgrades if:

- Casualty prior-year development turns adverse or the casualty combined ratio exceeds 100% for a quarter; or
- NPE growth turns negative, or the special dividend is cut to fund reserves.

Watch items

- **W1:** Casualty combined ratio and prior-year development (H1: 98.2%; \$28.2mm favorable in casualty). Source: Q3 2026 release, expected 2026-10-19. *Model: combined_ratio*
- **W2:** Property premium and rate (E&S property -6% in Q2; quoted rates at ~2022 levels). Source: Q3 2026 release and call. *Model: npe_growth, combined_ratio*
- **W3:** Casualty rate momentum (~10% in H1, expected to moderate in H2). Source: Q3 2026 call. *Model: npe_growth*
- **W4:** Net investment income run-rate (Q2 \$46.0mm; purchase yield 4.9%). Source: Q3 2026 release. *Model: investment_yield*

Sources

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- Daily macro log (10Y, S3 status), `logs/macro-2026-09.md` , 2026-09-24/25 entries

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.