S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

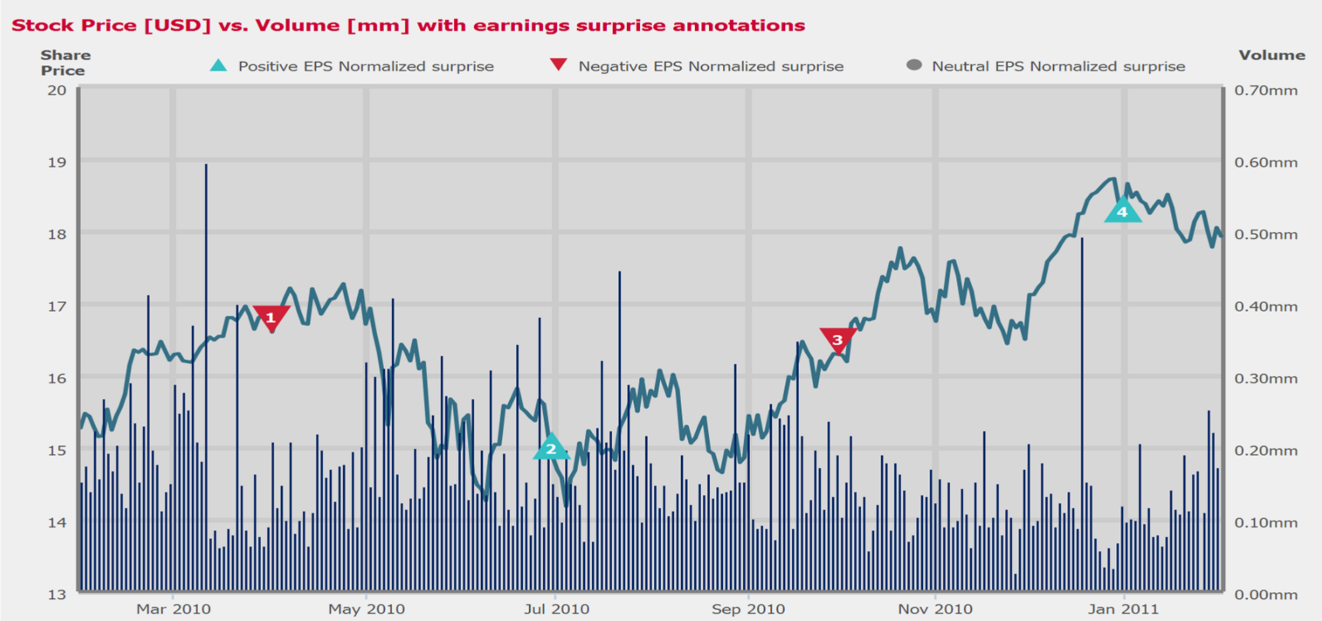
FQ1 2011 Earnings Call Transcripts

Thursday, April 28, 2011 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.29	0.32	▲10.34	0.36	1.39	1.56
Revenue (mm)	384.19	403.46	▲5.02	388.62	1534.20	1591.85

Currency: USD
Consensus as of Apr-28-2011 5:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.20	0.12	▼(40.00 %)
FQ2 2010	0.38	0.41	▲7.89 %
FQ3 2010	0.38	0.35	▼(7.89 %)
FQ4 2010	0.38	0.48	▲26.32 %

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EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Greg Murphy

Jennifer DiBerardino

John Joseph Marchioni
President & COO

ANALYSTS

Bob Farnam
KBW

Caroline Cameron

Doug Mewhirter
RBC

Michael Grasher
Piper Jaffray

Robert Paun
Sidoti & Company

Presentation

Operator

Good day everyone. Welcome to the Selective Insurance Group's First Quarter 2011 Earnings Release Conference Call. At this time for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino.

Jennifer DiBerardino

Thank you. Good morning. Before we begin, we would like to say that our hearts go out to the families in the Southeast who have been impacted by the tragic storms that occurred yesterday. This call is being simulcast on our website and the replay will be available through May 28, 2011. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website at www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's Annual Report on Form 10-K and any subsequent Form 10-Q filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining me today on the call are the following members of Selective's executive management team, Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary.

Now, I will turn over the call to Dale to review the quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Good morning. First quarter results were within our expectations. Underlying Commercial Lines profitability improved and we achieved another quarter of Commercial Lines price increases.

For the quarter, we reported operating income per diluted share of $0.32 as compared to $0.12 a year ago. Results were driven by higher net investment income from alternative investments and favorable prior year casualty reserve as well as favorable catastrophe development.

The first quarter statutory combined ratio was 102.6% flat with the year ago quarter. Catastrophe losses in the quarter were $7 million pre-tax or 1.9 points in line with our full year guidance of 2 points and they included approximately $5 million of favorable prior year catastrophe development from 2010 hail losses that did not materialize.

Additionally, we have prior year favorable casualty reserve development of $4 million or 1.1 points on the combined ratio partially offset by adverse other property development of $1 million. Total statutory net premiums written were down 2% in the quarter with Commercial Lines net premium written down 4%.

We saw an improvement in the magnitude of return audit and endorsement premium in the first quarter with returned premium of $4 million. While still negative, this is an improvement from the $16 million return premium in the first quarter of 2010 and the $5 million returned in the fourth quarter of 2010.

Commercial Lines renewal pure price was up 2.8% for the quarter and year-on-year retention improved 1 point to 80.3%. Retention remained strongest for small business while middle market and large accounts are seeing the most competitive pressure. We've modified the way we measured year-on-year retention to more closely approximate industry practice.

In the investor package, we have provided comparable quarterly retention numbers back to 2008. The Commercial Lines statutory combined ratio was 100.6% in the first quarter. Commercial property performed well in the quarter with an 86.8% statutory combined ratio including 7.7 points of catastrophe losses.

Commercial auto also had a good quarter, reporting a statutory combined ratio of 92.3%. Commercial auto results were positively impacted by favorable prior year development of 6.5 points from lower than anticipated severity, primarily in the 2006 through 2009 accident years. Workers' compensation results continue to show the negative impact of a soft economy with the first quarter statutory combined ratio of 122.8%. This includes about 9.6 points of adverse prior year reserved development related to severity in the 2010 accident year.

Personal Lines net premium written grew 9% in the first quarter to $62 million and the statutory combined ratio was 101.5%, which included 2.8 points of catastrophe losses.

While catastrophe activity was lower in the first quarter of 2011 compared to a year ago, we experienced an increase in non-catastrophe property losses of $9.1 million. We continue to drive rate in Personal Lines and have implemented 13 of the 38 anticipated additional rate increases so far this year. There has been much discussion surrounding the new RMS version 11 model since its launch in late February. The revised model incorporates increased vulnerability of construction assumptions and increases the expected wind hazard further inland. Recognizing the differences in model losses for the same portfolio between the RMS and air hurricane models, we use a blended approach in determining the amount of reinsurance to purchase. Based on these results we recently purchased an additional $75 million layer of cat cover. This brings the catastrophe excess of loss program to $435 million in excess of our $40 million retention. As a result a 1% probability or 1 in 100-year event is about 5% of shareholders equity and 0.4% probability or 1 in one 250-year event is approximately 18% of equity on a blended odel basis.

Turing to investments, first quarter after tax net investment income increased 20% to $32 million from a year ago. Alternative investment income of $11.6 million pretax drove the increase. Each strategy in the alternative portfolio generated income this year. The majority of the funds in our alternative investment portfolio report performance on a one quarter lag. The strength of the financial markets in the fourth quarter of 2010 allowed several of the general partners to harvest some investments, which strongly contributed to the results.

We would not expect the same magnitude of alternative income over the remaining three quarters of 2010. The after-tax yield on fixed maturities was 2.8% for the quarter, flat with the last two quarters, but down slightly from the year ago period, reflecting the low interest rate environment. Invested assets increased 3% from a year ago to $4 billion. Our overall fixed income portfolio maintains a very high credit quality of AA and duration of 3.4 years including short-term investments and 3.5 years excluding short term.

We continue to increase our investment in corporate bonds while maintaining our year-end 2010 exposure level to municipal securities. Equity exposure at March 31, 2011 was 1.9% of invested assets up slightly from last quarter and down from 2.1% in March of 2010. We have deployed a high dividend yield strategy for the large cap domestic portion of the equity portfolio. This strategy is still designed to more closely track the S&P 500 than our history equity portfolio. But at the same time it is expected to generate a higher current yield in the index.

Compared to a year ago, the unrealized gain position improved to $75 million pretax at March 31, 2011 from $54 million. Also noteworthy is the quarter end unrecognized gain position in the fixed income held to maturity portfolio of $39 million pretax or $0.46 per share after tax. Other than temporary impairments or OTTI in the quarter were minimal at $410,000 after-tax versus $5.4 million in the first quarter of 2010. Surplus remained strong at $1.1 billion at March 31 and stockholders equity increased 7% to 1.1 billion from March 31, 2010. Book value per share increased 6% to $20.06 from $18.97 at March 31, 2010.

Our capital position as measured by the premium to surplus ratio improved to 1.3 to 1 down from 1.4 to 1 a year ago and flat with year end 2010. The dividend yield is currently 3% providing a competitive return, while the stock trades at 85% of book value. We continue to monitor our capital levels and review options to maximize shareholder returns.

Now I will turn the call over to John Marchioni to review the insurance operations.

John Joseph Marchioni
President & COO

Thanks, Dale. Good morning. Throughout the first quarter we exercise underwriting discipline in a challenging Commercial Lines market. This is best demonstrated by the price we have achieved in Commercial Lines. We have also made great progress in developing new and expanded Commercial Lines products to meet the evolving needs of our customers and agents.

We believe the combination of our underwriting discipline, granular pricing capabilities, expanded products and superior service will pave the way for success. While market cycles will continue to effect industry results, we are focused on building an organization that will allow us to perform regardless of industry cycles.

Both our inside and field underwriters are able to utilize our underwriting tools and leverage the relationship with our agents to improve our overall mix of business. The policy retention at the point of renewal is strongest on our highest quality accounts.

In the first quarter, this business, which comprises about 58% of our modeled book, retained at 2 points better than average as we achieved renewal price increases of 1.7%.

Our worst performing business, comprising about 15% of our model book, showed retention levels 6 points below the average as we achieved a 7.7% renewal price increase. We monitor our book of business in this way to evaluate the success of our granular pricing strategy in a market that does not permit more broad based renewal price increases.

We believe that having the capability to target rate with this level of segmentation will be essential and achieving optimal results, when the market begins to firm. We remain focused on the long-term profitability of our Commercial Lines book of business. Maintaining discipline in an undiscipline market has created some top line pressure.

We are writing the majority of our new business in the highest quality four and five diamond range, while through disciplined underwriting and more aggressive pricing we work to achieve profitability in our worst performing business.

New business in the quarter was down 25% because carriers including Selective are aggressively trying to hold on to their best business, so that it does not go out to bid. Now least lower quality business in the market, which is resulted in fewer submissions and lower hit ratios. We believe walking away from unprofitable new business is the right decision.

For the quarter, new business by segment was as follows. One-and-done automated new business was down 21% to $16 million and middle-market and large account new business was down 26% to $31 million.

We are making progress in diversifying our Commercial Lines book away from the more economically-sensitive contractors book. Non-contractors now represent 64% of Commercial Lines premium. We are experiencing early success from our appetite expansion efforts and the new Commercial Lines products we have introduced over the past two years.

Submission activity has been strong in our community and public services segment specifically in the area such as religious institutions, social services, power transit and in-home companion care. We rolled several new products in the technology arena and have more in the developing pipeline. This provides agents with further opportunity to place business with Selective.

The workers' compensation line continues to feel the strain of the economy and medical cost inflation, which results that were broadly inline with the fourth quarter 2010. This is an industry-wide issue that we don't expect to be solved without significant underwriting, pricing and claims discipline. In the quarter we achieved half point above the overall average renewal price increases on a workers' compensation book of business.

Our claims initiatives to improve case management better assigned claims in a more specialized model and increase penetration with our provider networks are on target to help us reach our overall claims cost reduction targets particularly in workers' comp.

Personal Lines new business was down 8% in the quarter largely due to our increased rate activity as well as additional underwriting restrictions implemented to improve auto profitability. The mix of business is improving as we write a greater distribution of low frequency, high retention business. The overall insurance score of the book is also improving.

With the reception to price increases the Personal Lines market remains a study and contract to the Commercial Lines market. We achieved pure renewal rate increases of 6.6% in the first quarter with 13 rate increases already implemented this year we are on track for implementation of another 25 rate increases in 2011 that in total could generate an additional $16 million on our enforced book. Not only we had success increasing Personal Lines pricing, but our retention remained strong at 85.5%.

While underlying trends are moving in the right direction for Personal Lines, results were negatively impacted in the quarter by non-catastrophe large losses. $2.6 million of the first quarter property losses were related to losses that occurred late in the fourth quarter of 2010. Large losses hurt the short-term profitability of our book, but we are confident we are taking the appropriate measures to improve long-term profitability of our Personal Lines.

Given the magnitude of the first quarter property losses, we no longer feel we can meet our goal of overall Personal Lines profitability in 2011, but we expect to achieve combined ratios below 100 on a run-rate basis in the latter half of 2011.

Now, I'll turn the call over to Greg.

Greg Murphy

Thank you, John and good morning. Selective continues to manage the difficult Commercial Lines marketplace as we just completed our eighth consecutive quarter of positive Commercial Lines renewal price. It's tough to drive price in the current soft market environment when certain competitors are aggressive to write new business. In this slow economic recovery one must protect their renewal book, because new business is volume taken from another insurance carrier.

In addition, customers remain price sensitive, which forces agents to shop business more broadly than they might or otherwise. As John noted, there is a more noticeable trend towards carriers proactively getting out ahead of their renewals to protect their best business. This translates into pure quality accounts coming to the market and in turn lower new business submissions and related hit ratios.

It seems that we've reached the intellectual point, where the collective way of the math points only to a firming Commercial Lines marketplace. Higher reinsurance costs due to global events in the new RMS 11 model. Higher claim costs for medical and related liability inflation. Loss reserve releases that history shows will eventually turn into reserve increases and lower yield investment opportunities. You cannot defy gravity forever.

Industry Commercial Lines results will significantly worsen and the marketplace discipline will reemerge. I believe that only those carriers with sophisticated underwriting and granular pricing will be successful in the next firming cycle.

As a result of our underwriting capabilities, we successfully increased rate for eight consecutive quarters. In addition, we continue our many claim initiatives that are expected to reduce loss cost by 3 points over the next three years that include litigation management through more effective use and the management of staff and panel counsel, ongoing vendor management to ensure that we have the highest quality vendors at the best price to add expertise to our claim adjustment process and more affected integrated claim outcomes in the resolution of workers' compensation and other casualty lines.

We're also reviewing all of our customer touch points to improve communication and service levels from already high standards by providing 24/7 access to billing, claims, reporting and other information on our customer self-service portal. We are giving our customers what they want when they want it.

The sourcing of our investment portfolio in 2010 has been very successful. We've been able to leverage the greater breadth of expertise at our disposal. We were confident in the quality of our municipal bond portfolio as a result of two exhaustive studies of the portfolio and the continuous monitoring of the holdings. We have established a high dividend yield strategy to help offset the low interest rates on our fixed income portfolio. We rebalanced our alternative portfolio last year to take advantage of increased investor interest and tax benefits. The alternatives performed very well in the quarter with each strategy generating income.

A.M. Best is predicting the Commercial Lines industry to achieve a 2011 statutory combined ratio of 110%. With 81% of our business in Commercial Lines, our overall 2011 guidance is to achieve a statutory combined ratio between 101% and 102% substantially below industry expectations.

Our guidance does not include any expectations for additional favorable or unfavorable reserve development, but does include a 2-point catastrophe loss assumption. Weighted average shares at year end are expected to be approximately $55 million.
Now, I'll turn the call to the operator for your questions.

Question and Answer

Operator

Thank you. (Operator Instructions) Caroline Cameron from Macquarie, you may ask your question.

Caroline Cameron

Hi morning.

Greg Murphy

Good morning.

Caroline Cameron

Hi, my first question I was just wondering it seems that some competitors are actually a little bit more positive this quarter and seeing some improved stabilization in pockets of the market. And I was wondering what you thought might be driving some of that stabilization and what you feel it might take to get the middle market and large account business to be a little bit more competitive?

Greg Murphy

Yeah, I'll start with that and I'll let John. I mean, we hear some of that, but I'm going to tell you we're not seeing that universally, I mean, we're still seeing companies lead aggressively with workers' compensation. We still see commission incentives out there on the comp side. So we hear the (indiscernible) in the marketplace. We talk to our agents consistently throughout the year and we are hearing pockets of some companies now starting to tighten up a little bit, but it's still, I would say, very aggressive to new business and I want to say carriers are still leading with aggressive comp pricing that is problematic.

John Joseph Marchioni
President & COO

Yeah. This is John. I'll add just to what Greg said which I think is completely on point. Companies continue to take a different approach on new business and we are seeing more companies trying to push for a little bit of rate on the renewal inventory, but then you see those some companies being overly aggressive for new business. You are seeing generally speaking less submission activity across the board. You are seeing less quality business on the streets and that's certainly affecting new business for us as we maintain the disciplined approach to business acquisition. So we do think there is some sense that the consumer side of this on the Commercial Lines side is maybe backing up a little bit in terms of driving that shopping, but unfortunately, you still have insurance agency producers who are trying to maintain some commission levels with the book of business that because of the economy over the last couple of years has shrunk. So that defensive posture start continues to put business in the marketplace and you have aggressive pricing for new business from some competitors. So until that side of the market starts to turn, what you are seeing in terms of renewal behavior is not going to really push the market as hard as it should.

Caroline Cameron

Okay, thank you.

Greg Murphy

Caroline…

Caroline Cameron

Yeah, go ahead.

Greg Murphy

Caroline, I will just add to that just two in terms of we have started to see some stabilization on the exposure side as Dale mentioned in his prepared comments, although we're still generating some return premium that is way down relative to where we were at on 2010 basis.

Caroline Cameron

Okay, thanks. That's really helpful. And then my next question is just going to Personal Lines, I was just wondering if you are seeing any improvement in exposure units, just given a little bit of improvement in economy? And then whether any of the recent growth makes you a little bit nervous just given some of the recent [card activity] that we've seen?

Greg Murphy

John, do you want to…

John Joseph Marchioni
President & COO

Yeah, from an exposure basis perspective, you see a little bit of growth on the auto side, I mean, obviously home values continue to be fairly stagnant. And I'm sorry the second part of the question was…

Caroline Cameron

Yeah, just with the recent growth that we've seen in Personal Lines, there has been a little bit more card activity in the first and second quarters, does that make you nervous at all?

John Joseph Marchioni
President & COO

Well, yeah, thank you for the question. So clearly, you are seeing a change in weather patterns and we continue to see that throughout the first four months of the year up to and including the events we saw yesterday. We have over the last couple of years and continue to drive fair amount of rate through our property book on the home side. We think that needs to continue. We think the market has been fairly supportive of those rate increases. I would say the other dynamic that's at play and we've certainly been out in the market now with this and other companies more recently as well is rating on it by apparel basis, so that you could start to build out more specific your rates for wind and weather apparels and really go after those in an aggressive way. So there is no question you are seeing a more consistent change in the weather patterns that not just personal, but commercial property needs to start being reflected in rate activity. We have certainly done it in the personal side. We are starting to do it on the Commercial Lines side. The market has obviously been much more supportive personally than it has commercially.

Caroline Cameron

Okay, great. Thanks.

Operator

Michael Grasher of Piper Jaffray, you may ask your question.

Michael Grasher
Piper Jaffray

Well, thank you. Good morning everyone. Congratulations on this quarter. I wanted to go back to Dale's comments around the capital management, some of the risk to capital following here at about [128 or 123], what are the alternatives that you are thinking about, I mean, given the Greg and John's commentary around the potential for the market firming. Was that in terms of share repurchase, increasing dividend those sorts of things?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Every quarter we do look at, at all of that. Its obviously, historically we've used the multitude of methods for management of our capital including share buybacks and dividend increases. But also we want to make sure that we have the appropriate capital to most fully participate when the market does finally firm. Obviously, everybody has been talking and hoping about a firming in the marketplace for sometime. So, that's certainly there as something that we have to consider when you empty the coffers and then not have the same kind of ability to participate in an upswing. There's also obviously the possibility for acquisition if that the right kind of an opportunity comes about or very careful about that and we're not naïve about the ability of this industry to make effective acquisitions, but we do think that that's also an appropriate thing to consider. So, all of those things are under consideration throughout the management and at the board level.

Greg Murphy

Hey, Mike and if I can just add obviously you've heard us always say hope is not a strategy. We had eight consecutive quarters of rate increases. We've been very effectively managing the cycle. I know a lot of times we talk to our money managers and they said look where is modeling? How does that evidence itself? Where is the relationships? How does that evidence itself? And I think the combination of the two and how effective we've been doing that and being kind of the loan range or eight quarters out there is tougher on our agents to do that. What I will say that I've been in the business 30 years now. I've been through three hard cycles in terms of firming.

This is the first firm cycle that we'll go through, where some carriers have sophisticated underwriting, other carriers don't. And I just want to make sure that you guys are aware of. I think that where you only have the hamper everything to nail and if you don't have sophisticated underwriting, you have no way to protect yourself against the carriers that do have it. So, my sense is that anybody that's weaker now hoping for firming pricing without that sophistication is going to find themselves getting weaker, because they are going to be picked apart by the carriers that have sophisticated underwriting that will be able to go in and differentiate between accounts that I today need price reductions versus the accounts that need significant price increases. So we want to be prepared to take advantage of that. We have never seen a cycle, where you are going to go through that kind of opportunity with the big dichotomy in terms of intellectual capacity on the carrier side. So, it's going to be an interesting thing, which I think will force a lot more take unders, a lot more of transitional noise in the industry and unfortunately maybe a shorter and less deep cycle in terms of its length and the amount of the increase.

Michael Grasher
Piper Jaffray

Okay. Given all of that is it fair to say that you will likely play close to the vest in terms of initiating any or reinitiating any sort of share repurchase with the stock at these levels?

Greg Murphy

Well, I think Dale answered all that extremely well. So, I mean we look at everything, but we want you to understand that there is another dynamic out there and it's not just the firming market, it's a firming market that will have the opportunity for carriers that have the knowledge base to be a lot more aggressive to write a lot more market share. That's the point that I'm just trying to add to what Dale said.

Michael Grasher
Piper Jaffray

Okay. Fair enough. And then if we look at the investment portfolio certainly a spike here in terms of the pre-tax yield do you feel like with the investment funds moving higher or do you think you sort of caught up from that perspective and that we should probably see these yields move back to where they were sort of middle of the year last year.

Greg Murphy

I'd say keep in mind that the yield is being impacted by the tremendous quarter the alternative investments had.

Michael Grasher
Piper Jaffray

Right.

Greg Murphy

And that's although obviously those are all performing better and we expect to see them perform better than they have in the past. This is probably a pretty high quarter that we don't really expect to continually repeat itself over the course of this year. I mean, rates are still under pressure as far as in the fixed income marketplace. There is not a whole lot of available yield out there without really stretching for yield. I mean, the yield curve is fairly steep right now. So you could obviously extend duration to get more yield, but that's a pretty risky play given expectations for inflation. So we have pretty much stuck with the 3.5-year duration, because we think that's probably about the best spot to get the right kind of yield currently without really over exposing ourselves to the risk of a spike in inflation. So, overall you are not going to see the same kind of total portfolio yield that you saw in the first quarter. I don't think you are going to see that throughout this year and again driven primarily by the alternatives.

Michael Grasher
Piper Jaffray

Okay, thank you.

Operator

(Operator Instructions) Doug Mewhirter of RBC Capital Markets, you may ask your question.

Doug Mewhirter
RBC

Hi, good morning. Just two quick questions, one, I just wanted to clarify, I guess, semantics in your release. You said that you had about 7 million of catastrophe losses, but you said that included 5 million of catastrophe favorable development. So if I read that, interpret that correctly, does that mean you had $12 million of gross cat losses in the first quarter that was offset by 5 million of favorable development, which netted to 7?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

That's correct. Basically we had four catastrophes that occurred during the first quarter, we had $12 million of losses, but there was, in effect we overbooked for expected cat losses in 2010 by $5 million. So that's a favorable development of $5 million for a net number of $7 million in the quarter.

Doug Mewhirter
RBC

Okay, thanks. That's helpful. And my second question is any - I know it's very early and the storm activity in the early second quarter, is there any indications about how that affected you in terms of claim counts? I know it's a bit west of your core markets, but it did kind of reach up in the northeast a bit.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

I'd say you are right. It's very early and we have not provided any kind of information or guidance with regard to losses on that.

John Joseph Marchioni
President & COO

But you guys are aware that we don't write home in North Carolina.

Doug Mewhirter

RBC

Okay, thanks. That's all my questions.

Operator

Bob Farnam from KBW, you may ask your question.

Bob Farnam
KBW

Hi, thanks. Good morning. With the 10 points of workers comp average development from accident year 2010 severity driven, could you give us an idea maybe more of what specifically driving severity trend higher?

Greg Murphy

It's generally across the board, higher severity trends and I think that from our standpoint we factor in, in terms of on the medical side a pretty good level of inflation relative to where we set our reserves. So, I think it's a combination of the increase in severity as a result of that and the fact that we just see a spike up. And we see that happen in different years where you get a higher level of claims that have worse either body parts of that. Wherever it is that drives that element, we do see that volatility year-to-year that happen. So, it's nothing specifically, but you can look at it and say, well this is a result of one certain specific thing and the underwriting of the book. It's just normal variation in the type of injuries that you get that differ year-to-year.

Bob Farnam
KBW

Okay, and do you see - I have read other companies complain about return to work issues with (indiscernible) to return to, are you seeing that factor in as well?

Greg Murphy

That's a tougher part for instance in the State of Pennsylvania where you have to have someone out and continue the disability element until they have a job to come back to. So, yeah, there are opportunities for people to maybe drag out the medical aspect if the job opportunities aren't there. So, you have to be very aggressive in return to work programs. You got to be very aggressive in capacity utilization and those are things that you have to be on top of all the time.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

We do see people staying out longer and taking more meds than they have in the past. And those things are definitely driving up severity of losses.

Bob Farnam
KBW

Right, okay. How about workers comp development in the prior few accident years, like accident year '08 or '09? How are they shaping up so far?

Greg Murphy

Some of the earlier ones generally are stable, actually slight favorable development in some of the earlier years, not a lot. I would say the year that the most amount of pressure on though that was the '10 year, 2010 accident year.

Bob Farnam
KBW

Thank you.

Operator

Robert Paun of Sidoti & Company. You may ask your question.

Robert Paun
Sidoti & Company

Good morning.

Greg Murphy

Good morning Robert.

Robert Paun
Sidoti & Company

Just had a question on the commercial auto book, can you just give us some more color on what you are seeing in that business. I think we've seen recently some positive data in the trucking transportation sectors. Have you seen that translate into more pickup in activity in commercial auto?

Greg Murphy

In terms of increased power units, you mean in all that.

Robert Paun
Sidoti & Company

Yeah.

John Joseph Marchioni
President & COO

Yeah, not necessarily. Again, we are an account underwriter, so we don't write a lot of model like commercial auto. So the trends we see in the commercial auto line for the most track with the trends we see in other lines in terms of exposure base. I do think you had a lot of exposure units taken off the road by a lot of business over the last several years. You are starting to see that come back online. But generally speaking as an account underwriter what we see doesn't necessarily differentiate itself for commercial auto than it would for other lines of business on the package side.

Robert Paun
Sidoti & Company

Okay, thanks. And Dale, I think you gave the number for favorable reserve development in that commercial auto book. I think I missed that, what was that number?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It was - casualty in total was $4 million favorable development. For commercial auto itself, it was a $4.5 million favorable reserve development.

Robert Paun
Sidoti & Company

Okay, thank you. That's all I had.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks Robert.

Operator

(Operator Instructions) I am showing no further questions.

Greg Murphy

Okay, thank you very much operator and if you have any follow-up matters, please contact Jenifer or Dale. Thank you very much.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thank you.

Operator
Thank you for your participation. Your call has concluded. You may disconnect at this time.