S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

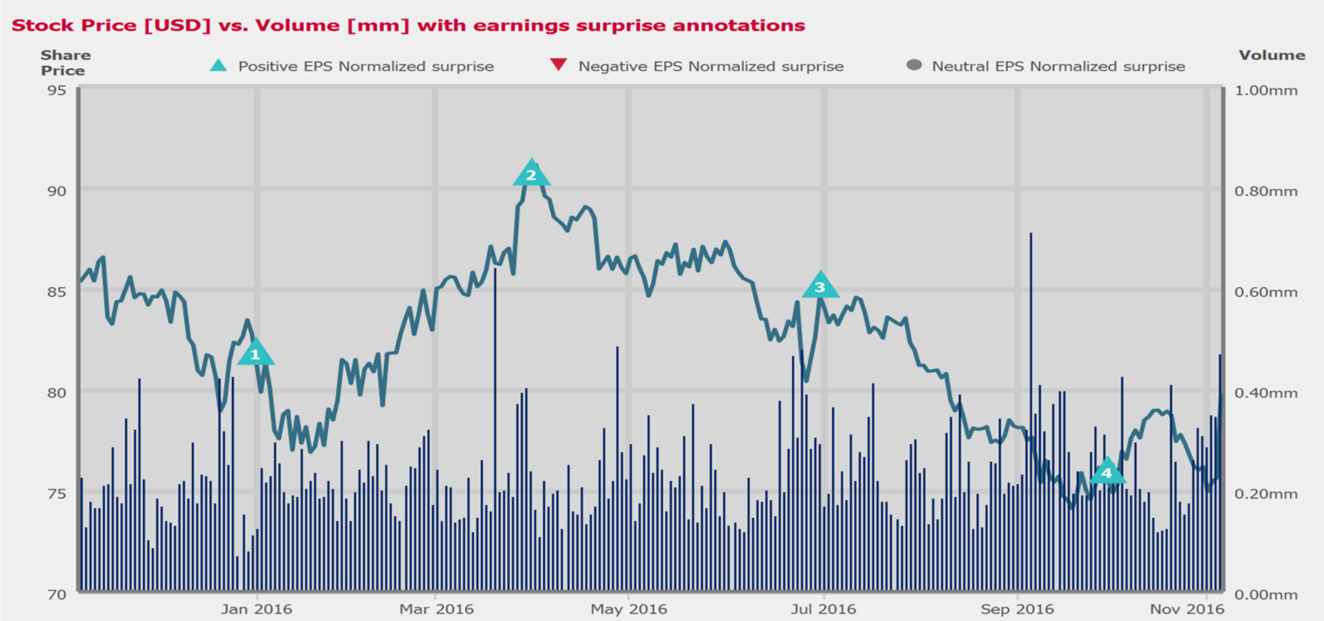
FQ3 2016 Earnings Call Transcripts

Friday, November 04, 2016 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.55	1.83	▲18.06	1.69	5.68	6.90
Revenue (mm)	1221.25	1250.90	▲2.43	1067.00	4645.30	4838.33

Currency: USD
Consensus as of Nov-04-2016 6:22 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2015	1.60	1.82	▲1 13.75 %
FQ1 2016	1.60	1.64	▲2 2.50 %
FQ2 2016	1.19	1.24	▲3 4.20 %
FQ3 2016	1.55	1.83	▲4 18.06 %

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Call Participants

EXECUTIVES

Eugene Martin Bullis
Former Executive VP & Interim CFO

John Conner Roche
President, CEO & Director

Joseph Michael Zubretsky
Former President & CEO

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Richard William Lavey
Executive VP & President of Hanover Agency Markets

ANALYSTS

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Hanover Insurance Group third quarter earnings conference call. My name is Derrick, and I will be your operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Oksana Lukasheva. You may proceed.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

[Audio Gap]

and thank you for joining us for our third quarter conference call. We will begin today's call with prepared remarks from Joe Zubretsky, our President and Chief Executive Officer; and our interim Chief Financial Officer, Gene Bullis. Available to answer your questions after our prepared remarks are Jack Roche, President of Commercial Lines; Dick Lavey, President of Personal Lines; Johan Slabbert, Chief Executive Officer of Chaucer; and our incoming Chief Financial Officer, Jeff Farber.

Before I turn the call over to Joe, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available in the Investors section of our website at www.hanover.com. After the presentation, we answer questions in the Q&A session.

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements, including our 2016 outlook. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call.

We caution you with respect to reliance on forward-looking statements, and in this respect, we refer you to the forward-looking statements section in our press release, Slide 2 of the presentation deck, and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as operating income and accident year loss and combined ratios excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release or the financial supplement, which are posted on our website, as I mentioned earlier.

With those comments, I will turn the call over to Joe.

Joseph Michael Zubretsky
Former President & CEO

Thank you, Oksana. Welcome, everyone, to our third quarter earnings call. We earned operating income $78.6 million or $1.83 per fully diluted share in the quarter, an increase of 13.7% over the prior-year quarter on a per-share basis, and we produced a consolidated combined ratio of 94.2%, generating an operating return on equity of 11.6%.

We are pleased with our performance in the quarter, the trends we experienced across many of our business segments and how we are positioned for the fourth quarter and 2017.

As we will detail in our remarks, underlying our results were lower-than-expected catastrophe losses, consistently favorable underwriting performance, rate increases across our domestic business and healthy and controlled overall net written premium growth of 4.3%. We also made significant progress on business initiatives in each segment during the quarter.

While some challenges remain, we are satisfied with our performance and pleased with the growth trends in this very competitive market. This morning, I will discuss highlights of our third quarter results and trends, Gene will review our financial performance and business results by segment, I will then give you an update on our market position and long-term strategic planning process, and then the team and I will take your questions.

In Commercial Lines, we posted a combined ratio of 99.2% and net written premium growth of 4.8%. Our top line performance reflects a consistent level of price increases and a higher rate of retention. We continue to improve the quality of our in-force book of business, calibrating rates, renewal and new business flow in order to maximize retention on our most attractive business and improve profitability on lower-performing accounts.

We increased prices in core Commercial Lines by 3.9%, a good result in the current environment, driven by our focus on small and midsized accounts, which are less price sensitive, our product differentiation and our stable and targeted risk appetite.

The quarter's aggregate rate increase, however, was slightly below our assumed long-term loss trend for Commercial Lines. With the benefit of expense leverage, earned rate increases and disciplined underwriting, this modest pricing pressure will not impair our ability to continue to produce above-target returns in Commercial Lines going forward. Commercial Lines new business decreased slightly over the prior-year quarter, a function of disciplined underwriting in competitive market conditions, but was still sufficient to fully replace business lost at renewal. We believe fewer accounts are being shopped at renewal, which tempers the churn in the marketplace as evidenced by high retention levels observed in the industry. As pricing and competitive pressures constrain organic agency growth across the industry, we continue to utilize our deep agency insights to capture value-oriented business, to maintain growth momentum and to achieve higher shelf space with our best distributors. Commercial Lines' bottom line performance reflected lower-than-assumed catastrophe losses and consistent current-year loss experience, partially offset by unfavorable development in Other commercial lines, principally within previously terminated AIX program businesses and CMP liability.

In the quarter, we again experienced increased reported claims and costs within these coverages, which influenced our development patterns and caused us to increase the ultimate loss estimates on prior accident years. Our AIX business has a strong position and brand in the program industry. Unfortunately, in the 2009 to 2011 period, several programs were poorly designed, underwritten and priced. Those programs and businesses have been terminated. However, managing the claims tail continues to be a challenge.

We are satisfied with our current program business portfolio and are pleased to see our most recent accident year loss picks hold as a result of previous reunderwriting, significant price increases and program administrator selection initiatives. Our CMP business, the flagship of our small commercial and middle-market franchise, continues to meet our target profitability goals and is appropriately priced, although unfavorable development of the liability component of CMP has been somewhat disappointing. We believe the previous underwriting actions and ongoing claims in pricing initiatives will enable us to put these specific issues behind us, and we will continue to benefit from this key product's strong position in the marketplace.

Overall, we believe we have the right underwriting, pricing and distribution profile to continue to profitably grow our Commercial Lines business.

In Personal Lines, we delivered a combined ratio of 93.1%, which benefited by a low level of catastrophe losses and strong underlying profitability from previous rate actions and a favorable quality mix. There was a marginal increase in the auto loss ratio in the quarter, driven by higher severity of physical and property damage claims, in line with the industry-wide trend of increasing repair costs on advanced technological componentry.

Personal auto frequency remained relatively flat, reflecting the consistent driving patterns of our customer base and the geographic mix that has had more benign frequency trends, at least in the past few quarters. Our overall loss trends remained within the range of our expectations and our pricing assumptions for this line. We generated strong Personal Lines growth with a net written premium increase of 6.3%, supported by rate increases, improved retention and strong new business flow. The improvement in retention is the logical outcome of our pricing consistency and bundled account strategy, as our overall account business now represents 82% of our total Personal Lines customer base. In addition, Hanover Platinum successfully targets the bundled account market, accounting for over 70% of all new business. It brings with it higher policy limits and umbrella coverage penetration, which we expect will translate to better margins over time. We will continue to leverage our existing agency base for more prominent shelf space to capture additional share in our target markets.

We also are on track to enter the Pennsylvania personal lines market in December. With this launch, we will implement our newly designed agency quoting and service platform, which features more pricing sophistication, improved ease-of-use and coverage enhancements that target the emerging affluent market. A broader rollout of this platform in our existing space will continue in 2017. The Personal Lines business has established a good trajectory to take advantage of attractive growth opportunities going forward.

Turning now to our international business. Chaucer produced a very profitable underwriting combined ratio of 81.3% in the quarter, reflecting favorable global weather and large loss activity in the quarter and attritional losses in line with expectations. Favorable development continues to contribute meaningfully to the bottom line as we remain consistently and appropriately conservative in our reserving practices due to the inherent claims reporting lag and high-access nature of this business. The trade credit loss pressures we experienced last quarter from commodity price-sensitive risks eased during the third quarter as commodity prices stabilized above prior lows. Net written premium declined by 1.3% in the quarter as we continued to proactively leverage attractive reinsurance rates to right-size the gross exposures within our risk appetite. Gross written premium increased by 6.2% as a result of ongoing investment in new underwriting teams, distribution capabilities and marketing activities to drive new business opportunities.

These business initiatives include our partnership with AXA in Africa, the launch of the marine specialty freight forwarder coverage and our new accident and health business. Each of these initiatives expands our access to attractive business while effectively offsetting exposure-based reductions in areas such as energy and aviation, where conditions are most challenging. Our underwriters write to preserve margins and will sacrifice top line if terms do not meet our requirements. We continue to be the account lead on 25% to 55% of the business we write, depending on the class, as Lloyd's brokers and clients seek Chaucer's deep understanding of risk to place the business.

In October, we submitted our application to the Central Bank of Ireland to set up a new subsidiary. This will allow us to successfully manage the uncertainties surrounding Brexit as well as obtaining access to regional markets and achieving a more diversified risk profile. Even though the market remains challenging, we feel confident about Chaucer's current position and outlook. We believe it's specialty underwriting capabilities and access to business worldwide, led by expert teams of underwriters, will enable us to successfully manage through these soft market conditions.

Before I turn the call over to Gene, I would like to say a few words about our annual reserve review process and full year guidance. Our development picture over the past several quarters has been disappointing, but in full context, contained within discrete issues in Commercial Lines, which have been more than offset by favorable development in Chaucer. Our reserve review is being thoroughly evaluated and overseen by our new CFO, Jeff Farber, and will include a third-party review in the fourth quarter.

Our outlook for the fourth quarter and the full year 2016 will reflect the impact of Hurricane Matthew, which we now estimate to be worth $25 million to $30 million across the entire enterprise, which while a loss again for us, should not cause us to exceed our fourth quarter catastrophe forecast of 4% of premium. With that, our current outlook for the full year 2016 is $6.15 to $6.30 operating income per diluted share. This assumes no impact from reserve development in the fourth quarter and, as mentioned, a catastrophe level equal to 4% of premium. Gene?

Eugene Martin Bullis
Former Executive VP & Interim CFO

Thank you, Joe, and good morning, everyone. On a consolidated basis, third quarter's 2016 net income was $88.4 million or $2.06 per diluted share compared to $78.3 million or $1.74 per diluted share in the third quarter of last year. Operating income was $78.6 million or $1.83 per diluted share compared to $72.2 million or $1.61 per diluted share in the prior year quarter.

The overall combined ratio was 94.2% compared to 94.9% in the third quarter of 2015, aided by lower catastrophe losses, partially offset by lower favorable development on prior year loss reserves.

Third quarter 2016 results reflect overall favorable development of $8.1 million, driven by $26.6 million at Chaucer, partially offset by unfavorable development of $19.3 million in Commercial Lines.

Turning now to underwriting margins by business segment, starting with Commercial Lines. The current accident year loss ratio of 57.2%, excluding catastrophes, represents a 0.5 point improvement over the prior year quarter, primarily driven by favorable property experience in CMP.

Our current accident year loss ratio selection for CMP liability coverages remains cautious and reflects increased medical costs and attorney involvement, primarily in soft tissue injury claims in major metro areas, the same trends evident in prior accident year loss performance. In response to unfavorable claims experienced in CMP liability in prior years, we updated ultimate estimates and recorded $9.1 million of unfavorable development in this line. Although the accident year loss ratio in the commercial model is still below expected profitability, loss trends clearly are leveling off, as demonstrated by a consistent accident year loss ratio in 2016 and 2015 through 9 months.

The $1.9 million of unfavorable development in this line during the third quarter relates to a write-off of a reinsurance receivable from the 2012 OneBeacon [ph] renewal rights deal, when we transferred a portion of our business to Tower. Outside of this adjustment, prior year loss estimates remained essentially unchanged. We continue to achieve mid-single-digit pricing increases to bring this line into target profitability.

In Other commercial lines, the accident year loss ratio was consistent with the prior year quarter. We realized unfavorable development of [ph] $12.1 million, driven by AIX discontinued program business.

In Personal Lines, the underlying loss ratio for the quarter was 61.1%, consistent with the third quarter of 2015. In auto, we saw an increase in the accident year loss ratio, driven primarily by higher physical and property damage severity, as Joe noted earlier. The lower homeowners loss ratio in the third quarter is due in part to lower non-catastrophe weather losses and the ongoing impact of higher rate.

The small rise in the expense ratio of 29% is the result of increased contingent commissions due to their unexpected year-to-date underwriting performance. We expect the ratio to return to about 28% over time as we leverage our cost base with growth and operating efficiencies.

Turning to our Lloyd's business. Chaucer generated a combined ratio of 81.3% for the quarter, down from 87.2% in the third quarter of 2015, due in large measure to the lack of current year catastrophe losses. We also decreased our estimates on certain prior year catastrophe losses, which brought the overall catastrophe loss ratio to a favorable 1.5 points. Large loss activity was subdued, while attritional losses were relatively in line with expectations, contributing to a 54.6% accident year loss ratio, excluding catastrophes. With that said, foreign exchange movements suppressed our quarterly results, albeit to a lesser degree than in the second quarter of this year.

Revaluation of loss reserves in certain currencies to pounds Sterling had an adverse impact of $10.4 million, which mainly flowed through the reserve development line. This was partially offset by a positive impact on investments and overseas deposits and premium receivables recorded in expenses for an overall operating earnings impact of $4.4 million after-tax.

The negative earnings impact was further offset by unrealized foreign exchange gains from euro-denominated investments of $2.1 million recorded in AOCI, reducing the overall book value impact of foreign exchange movements to a total of $3.1 million after-tax.

Moving on to top line results. Our total net written premiums grew 4.3% compared to the prior year quarter, driven by healthy growth of 6.3% of Personal Lines and 4.8% in Commercial. In core Commercial Lines, we achieved price increases of 3.9%. Retention increased 2.9 points to 87%, helped by timing of profit improvement initiatives last year as well as superior retention levels in our best-performing business. Going forward, we expect we will continue to see additional rate increase opportunities and implement profit actions in certain pockets of liability business.

Chaucer's net premiums written declined by 1.3% in the quarter, while gross premiums written grew 6.2% compared to the third quarter of 2015, excluding the impact of the U.K. Motor business. Given the competitive market at Lloyd's, we continue to use reinsurance capital to manage our risk appetite while retaining leadership and influence in our chosen specialty classes. We also generated stable and consistent investment results in the quarter. Net investment income was $67.8 million, generally in line with the same quarter last year.

During the third quarter, the portfolio pretax yield was 3.31%, down from 3.45% in the third quarter of 2015, driven by the prolonged low interest rate environment. The duration of the fixed income portfolio was 4.2 years at the end of the quarter, in line with the prior year.

Cash and invested assets were $8.8 billion at the end of the quarter, with fixed income maturities and cash representing 87.6% of the total. I'll finish our financial discussion on the strength of our capital position. Book value per share was $72.08, up 2.1% from June 30, 2016, and up 8.9% from December 31, 2015.

At 20.8, our debt-to-total capital leverage ratio is comfortably within our target range. With respect to capital management, we repurchased 465,000 shares of common stock for $38 million at an average price of $81.06 per share, leaving $184 million available for purchase under our current share buyback program. Year-to-date, we returned $105 million to shareholders through stock repurchases and paid $59 million in dividends. We view repurchases as an efficient capital management tool and will remain opportunistic, while at same time, ensuring overall capital flexibility.

On a personal note, since this is my last earnings call with The Hanover, I want to thank you all for welcoming me back to the team. It has been a pleasure working with you again. I wish you and The Hanover all the best.

With that, I'll turn the call back to Joe

Joseph Michael Zubretsky
Former President & CEO

Thank you, Gene. As we mentioned during our second quarter earnings call, we are now in the middle of a comprehensive long-term strategic planning process. We are working to define the road ahead, including our long-term financial goals and aspirations and the key investment decisions we will need to make. The process starts with a realistic assessment of the quality and sustainability of the current business platforms and a forward-looking view of how the business landscape might change.

We believe there is ample headwind to grow within our existing independent agency channel, which will remain at the epicenter of our strategy. The course this company has been on for the past 10 years is a very sound one. Increased leverage and optimization of the current agency plant and the existing product portfolio will likely serve as the first wave of profitable growth on any strategic path we set. This is supported by empirical data of market share by agency, opportunities to increase product penetration, strength of competitors and appetite by market and by agent.

During my listening tour, I have met with hundreds of our agent partners, and have received candid and constructive feedback on what we do well, but more importantly, what we can do better to grow together profitably. Agents appreciate the value of our product suite and service. They are confident in our ability to solve some of the challenges they face in the current marketplace, including market maturity, lack of organic growth, agency M&A and disruptors attempting to drive business from the advice channel to the direct channel. By helping our agent partners target value-added markets, including specialty, and developing our own complementary capabilities to provide broader, relevant product offerings, we can help agents address some of these issues, while at the same time, building our market share with them. In addition, we also confirmed the strong potential to leverage the highly technical underwriting platform at Chaucer by exploring product adjacencies as well as developing additional regional partnerships to get closer to distribution in targeted regions.

Our goals through this strategic planning process are to build upon existing elements of the business and to anticipate developing industry and societal trends. We will determine how to best position our company to succeed in the new insurance world we believe will evolve with technology as an increasingly powerful enabler of change. We are making good progress and we look forward to sharing our findings and decisions with you at our Investor Day on February 23 in New York.

Before we open the call to your questions, I would like to welcome our new CFO, Jeff Farber. Jeff has extensive property and casualty insurance experience and brings a broad and deep financial perspective. Jeff's top priorities will be to maintain vigor and accountability of investing in profitable growth and optimize margins in the business, thus creating excess capital to deploy in accretive ways. Also, we want to thank Gene for allowing us to leverage his experience during a critical time. You provided outstanding leadership for our organization, Gene, and we wish you the very best.
With that, we are now ready to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question will come from the line of Meyer Shields, KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Two things I want to hit on, if I can. One, if you take a step back and look thematically, what do you think is the biggest driver of the reserve release -- non-catastrophe reserve releases from Chaucer?

Joseph Michael Zubretsky
Former President & CEO

This is Joseph Zebretsky speaking. As we said in our prepared remarks, the Chaucer business model, obviously, inherently has reporting lags, operates at higher positions and yet [ph] the towers of excess layers and therefore, inherently, you take a more conservative position on [indiscernible] profile. So obviously, we book our best estimate, but that best estimate includes an element of conservatism, given that reporting lag and high excess nature of the business.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Do you see that as independent of pricing trends, again, in Chaucer?

Joseph Michael Zubretsky
Former President & CEO

I'm not sure I understand. I think it's independent of pricing trends. Yes. No matter which way the prices go, we will be holding reserves at a very high confidence level, knowing that there are reporting lags, and particularly on our reinsurance business. We're not in claims control. And therefore, you find things out inherently later. So irrespective of hard market or soft market, we will have a consistent reserving philosophy to be conservative.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, perfect. And then if I could turn quickly to the Personal Lines, I'm wondering if there is any way of characterizing the type of carriers from whom you're winning share. Is it regional carriers or the larger guys?

Joseph Michael Zubretsky
Former President & CEO

I'm going to turn that over to Dick Lavey.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Well, frankly, we see competition from both national players and regional players in the marketplaces we're in, as you know, 17 states. Michigan is a good example, where we compete more with regional-type domestic carriers versus the national players. That's true in a state like Maine as well, but other states. New Jersey, right, and some of our southern states, we would go up against both types of competitors. So I can't say it's one type around it [ph]. It's frankly a blend of both.

Operator

Your next question comes from the line of Charles Sebaski, BMO Capital Markets.

Charles Joseph Sebaski

BMO Capital Markets Equity Research

Just first, in the Commercial Lines and the strong, strong growth you're seeing. I guess, two parts is, how much of the growth is new policies? And where, maybe within specialty, are you seeing that? And two, how much is rate and underwriting changes?

Joseph Michael Zubretsky
Former President & CEO

Before I turn it to Jack, I would just make some framing comments. For the most part, the new business flow in Commercial Lines served to offset business lost at renewal. So most of the impact is new money rates. A portion of which is pure rate, a portion of which is exposure. That being said, we also had a very substantial increase in our retention rate, up to 87%, as we think there are fewer accounts being put out to renewal. I think it's confidence in Jack and his team's ability to deliver a quality product, consistently priced and high service levels that leads to retention rates. That might not be repeatable quarter after quarter, but it's certainly a sign that we're serving our customers very, very well. So that's the framing comment. Jack, I don't know if you have anything to add.

John Conner Roche
President, CEO & Director

Yes, Joe, that's pretty much the whole story. The major contributor to the uptick in growth was elevated retentions. And as Gene stated in that script that we had, some of that was an effect of less profit improvement actions in the quarter and some improvement, quite frankly, in some of the better tiers in our pricing segmentation. We got higher retentions in the better business, consistent with our hope and expectation. And frankly, I think you saw that maybe across the industry, that the third quarter, there was an uptick in retentions. The business is leveling off from a pricing standpoint. And I think that might give us opportunity, quite frankly, to push a little bit harder in things like commercial auto, where we might be able to get accelerated rate increases. So we're going to continue to balance that and get that mid-single-digits growth as long as we believe we're moving forward on our margins.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

All right. Regarding the retention, are you just holding the accounts or are you just -- or is there -- do you think there's less submission flow? I guess, are you -- is the win rate less? Or is it just everyone is sitting still.

John Conner Roche
President, CEO & Director

Well I would say, for us, it varies quite substantially across the various business. Overall, if you look at it, the submission levels have clawed back slightly, but mostly the hit rates are coming down a little bit as we continue to stay disciplined and less better business comes to the market. I think what we have said to you in the past is that we worked really hard to pull in some of the business that we want from our distributors through our pipelining efforts. So we don't completely rely on flow, but the net-net is that new businesses is continuing to be pretty level because submission activities are moderating slightly, retention ratios hitting back and we're just being more successful on the targeted business that we're pulling in.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

All right. And I guess, a follow-up is on the review -- the reserve review process in Commercial Lines. I realize it's underway, but I was wondering if there's just any context that you might be able to give on how you think about the reserve position on what would potentially -- what are the levels or what would be the triggering events to kind of take a cleanup charge as opposed to continuing the reserve development in AIX and CMP, along the lines that we've seen the last few quarters?

Joseph Michael Zubretsky
Former President & CEO

I think, obviously, as making our best estimate in our 50-50 picks in the past few quarters, those have been pressured by mostly increased severity on known claims. So obviously, our best estimate wasn't sufficient. So the way we conduct this reserve review is by line of business, you make a qualitative assessment of the strength of your case reserves, you then look at your actuarial development patterns and update those and revise those if you actually feel they've changed. That causes you to perhaps make changes to your ultimate loss pick within an actuarial range. It might even cause you to hold a higher point in the range, producing a higher confidence level that reserves are more likely to run off favorably than unfavorably. All this will be overseen by Jeff Farber, it will be reviewed twice, once by our audit firm and once by Tillinghast [ph], and would report at the appropriate time. But specifically, all lines of business, obviously, with a deep dive into both the program business and CMP liability, the 2 areas that are causing the most pressure.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Excellent. And then I guess, just finally, on the Personal Lines business. Appreciate the color and how much of the book is account business and increasing, I think. Is there a thought or opportunity, I guess, on the existing book? How much of that 82% of the account business is Platinum product? Obviously, it's making up the majority of the new business, but how much of the whole book is Platinum today?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

When you look at the whole book, it's about 25% so far. Platinum's been out in the marketplace for a couple of years now. So that's increasing at a pretty rapid pace, but the full book is about 25%.

Joseph Michael Zubretsky
Former President & CEO

And of our sales, Platinum represents about 70% of new sales. So you should see how that -- as the in-force book builds with new business coming in, that's going to build pretty substantially over time.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

And a higher percent -- that number is a higher percentage when you take out Massachusetts, where Platinum is not yet available.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. So -- and I was wondering, is there a thought or a benefit opportunity on rolling the existing book into a Platinum product or is it really just more of a marketing opportunity for new business growth?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, we're going to tackle some of that when we roll out our new platform, which as you know, we're rolling into Pennsylvania first, but then we're going to bring that to our existing states. And when we do that, we will be migrating our home business to our new home product, so...

Joseph Michael Zubretsky
Former President & CEO

So one other point on that. You noticed in our remarks and we've said before that one of Dick's strategies is to target the emerging affluent. And the emerging affluent will have higher coverage limits, multiple homes, multiple cars, deeper umbrella penetration, which as you know, has high margins, comes with a lower new business penalty, a higher retention rate. So the net present value of a Platinum customer, which should result from our emerging affluent strategy, should be significant.

Operator

[Operator Instructions] And at this time, I'm showing no questions in queue. I would like to turn the call back over to Oksana Lukasheva, for any closing remarks.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you very much for your participation today. We are looking forward to speaking with you in next quarter.

Operator
Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.