The Hanover Insurance Group, Inc. NYSE:THG

Earnings Call

Thursday, May 2, 2024 3:00 PM GMT

Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
Executive VP & CFO

John Conner Roche
President, CEO & Director

Oksana Lukasheva
Senior Vice President of Corporate Finance

Richard William Lavey
Executive VP & President of Hanover Agency Markets

ANALYSTS

Grace Helen Carter
BofA Securities, Research Division

Jack Matten
BMO Capital Markets Equity Research

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Unknown Analyst

Presentation

Operator

Good day, and welcome to The Hanover Insurance Group's First Quarter Earnings Conference Call. My name is Chuck, and I'll be your operator for today's call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, operator. Good morning, and thank you for joining us for our quarterly conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and Jeff Farber, our Chief Financial Officer. Available to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; and Bryan Salvatore, President of Specialty Lines.

Before I turn the call over to Jack, 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 will 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 as defined under the Private Securities Litigation Reform Act of 1995. These statements can relate to, among other things, our outlook and guidance for 2024 economic conditions and related effects, including economic and social inflation, potential recessionary impacts as well as other risks and uncertainties such as severe weather and catastrophes that could affect the company's performance and/or cause actual results to differ materially from those anticipated.

We caution you with respect to reliance with forward-looking statements, and in this respect, refer you to the forward-looking statements section in our press release, 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 ratio, excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you all for joining us. We opened 2024 with an excellent first quarter, delivering robust earnings and effectively executing on our margin recapture and CAT mitigation plans. Consistent with our focus over the past several quarters, we remain disciplined and discerning in our growth as we continue to reposition our Personal Lines business and to improve earnings resiliency in our overall mix in order to drive strong, sustainable returns for our shareholders over the long term. On today's call, I will share my perspective on our results, as well as my thoughts on why we believe our company is well positioned to continue to deliver improving financial performance in 2024. Jeff will review our financial and operating results in more detail, and discuss our expectations for the second quarter and through year-end. Finally, we will open the line for questions.

After-tax operating income for the quarter was $112 million, or $3.08 per diluted share, generating an operating return on equity of 15%. We improved our ex-CAT combined ratio by more than 2 points in the quarter demonstrating the effectiveness of our margin recapture initiatives. As expected, overall growth was subdued in the quarter at 2.3% as we continue to prioritize profitability improvement actions. We expect to accelerate the pace of growth throughout 2024, and we expect to generate net written premium growth in the mid-single-digit range for the full year. We continue to effectively leverage our strong relationships with our best-in-class independent agent partners, helping them successfully navigate the dynamic marketplace and enabling us to build momentum in our target markets. Turning to our segment highlights.

In Specialty, we delivered another quarter of exceptional profitability, generating a combined ratio of 87.6%. Consistent with the outlook we provided on our year-end call, Specialty growth picked up from the low watermark in the fourth quarter. The market is very healthy and remains robust with exciting opportunities across Multiple Lines including Excess and Surplus Lines, Marine, Specialty Industrial Property, Healthcare and Surety. Other areas such as Professional and Executive Lines remain competitive, but we are seeing opportunities and premium growth picking up as well. In light of our robust profitability in this subsegment, we will continue to strike a prudent balance appropriately pricing risk while protecting our highly profitable book of business and pursuing quality new business opportunities.

At the same time, our Specialty top line results still reflect the impact of underwriting actions on specific underperforming programs within our Specialty P&C subsegment. The impact of these actions is expected to decrease as the year progresses. We expect Specialty net written premium growth in the upper single digits for the full year of 2024 as we further capitalize on our broad diversification and favorable market dynamics in most of our segments. In Marine, we anticipate significant growth in 2024 as we capitalize on opportunities across our diverse portfolio of inland marine products and sectors. In E&S, we expect the recent implementation of our new policy platform will enable us to capture even more market share beginning in the current quarter.

In Professional and Executive Lines, we see potential for increased growth in areas such as management liability and selected areas of our Professional Liability business. We're confident we can capitalize on these opportunities as they present themselves throughout the year, and that we will drive meaningful top line growth and further diversification across our overall business mix. Looking at Core Commercial, we are pleased with the segment's strong performance as we continue to provide our agents with a highly attractive portfolio of capabilities.

Our Core Commercial team maintained its focus on driving growth in Small Commercial while executing on margin improvement initiatives in Middle Market. Small Commercial grew by approximately 8% in the quarter, fueled by the continued success of our highly intuitive TAP sales platform. Our national rollout of this quote-to-issue platform for bot business is now complete. With that, we are actively working on adding the workers' compensation line of business to the platform, which will support our new business growth efforts in that area. In addition, we are expanding the use of APIs to further enhance our TAP sales reach by efficiently connecting to additional sources of business and adding targeted products to our specialized offerings.

In Middle Market, we continue to achieve better and more consistent earnings performance by aggressively nonrenewing bottom decile property business. We're also adjusting our new business appetite to reflect the changing environment, and ensuring that our pursuits are focused on high-quality accounts in targeted sectors and geographies. Additionally, we are making considerable progress against our IoT sensor enrollment program. While the program is targeted at most of our Property Lines, Middle Market remains in the epicenter of these actions given the higher limits profile. Across all of our business lines, we've deployed over 10,000 water and temperature sensors. That program has already resulted in numerous instances of loss prevention and mitigation. We believe we have achieved scale, meaning that operationally, we have enough sensors deployed where we can collect data and recognize trends, such as identifying geographic territories with higher risk profiles, several types of system failures or trends across certain industry sectors.

We believe this data will enable us to work even more effectively with our policyholders, providing guidance on how best to build resiliency. Overall, the Commercial P&C market remains rational, and continues to support needed price increases amid recent property loss trends and emerging industry concerns about casualty. For example, new business pricing in Small Commercial continues to accelerate and outpace loss trends.

In what has become an increasingly dynamic loss trend environment, we're often asked about our position relative to the social inflation challenges affecting the P&C industry. As a member of the American Property Casualty Insurance Association and other trade associations, we are actively engaged in promoting awareness and reforms to stem the cost of legal system abuse and in advocating for change. In addition, we believe our current liability profile will help us effectively navigate current social inflation trends.

On a relative basis, we have a low policy limit profile with over 93% of our liability policy limits at or below $1 million. We have secured and are maintaining low per-risk reinsurance retention, which attaches at $2.5 million, and we have avoided areas that attract a higher level of liability severity and are increasingly challenging to price adequately such as public D&O insurance and stand-alone excess umbrella policies. Over the last several years, we've also taken steps to lower our risk exposure in large metropolitan areas and in industries that are more susceptible to social inflation, reducing umbrella limits in certain lines in highly litigious jurisdictions and executing rate increases to stay on top of trend assumptions. We have approached this issue with a thoughtful and intentional strategy that we believe enables us to effectively manage the current liability environment.

Turning to Personal Lines. The business continues to demonstrate improved profitability and is performing largely on track relative to our expectations. Our loss ratio in both Auto and Home decreased compared with the first quarter of last year, in line with our assumptions. Personal Lines renewal price change was a robust 22.8% in the quarter. What's more? All targeted new business is subject to product changes, including an increase in all peril deductibles and the addition of wind and hail deductibles in certain geographies. These changes also are being rolled out with the renewals in targeted states. In addition, we continued to address geographic micro concentrations in the Midwest. As a result of our intense focus on profit improvement, as expected, net written premium growth in Personal Lines was flat year-over-year in the first quarter. We reduced our exposure in the Midwest in a deliberate and controlled manner during the quarter, resulting in a 4% decline in premiums in this region and an approximate 8% decline in policies in force.

Having the flexibility and the willingness to shed premiums to reposition our book will lead to improved profit margins in a higher, more resilient profit pool in the future. To that point, excluding Midwestern states, we have delivered growth of 4% with PIF down only 2% year-over-year. Primarily driven by lower new business, while retention remained relatively stable at over 84%. This said, in select geographies, we are already pivoting to a more aggressive new business stance where we have hit our profitability milestones on a written basis and where we are already comfortable with diversification positioning.

Overall, the Personal Lines market remains robust. We expect premium growth to accelerate from this point forward and pricing to remain firm in 2024. In the Midwest, we are seeing others follow our lead, implementing higher deductibles and introducing other product changes to offset loss trends. Our Personal Line's account orientation is unique in the independent agency channel, with about 88% of our business representing a whole account. In our view, that orientation creates a preferred customer base that is both more protection minded and far less price elastic which we believe will position us for continued success.

As we work to institute increased pricing deductibles and to adjust terms and conditions, our strong independent agency relationships are once again proving to be critical. Just a few weeks ago, we met with over 120 of our largest, most successful agents at our Annual President's Club Conference. We held a number of executive meetings focused on how we can best support our agents in the current dynamic market environment and grow our business together. We believe our independent partner agents fully recognize the critical role they play in our efforts to advance customer adoption of risk prevention and mitigation tools as well as in garnering customer support for the needed pricing increases we are implementing. We walked away from this annual event with more confidence than ever in the strength of our distribution platform and the commitment of our agent partners.

In summary, our excellent performance in Q1 underscores the strength, diversification and resilience of our business. We already have begun to see the positive effects of our underwriting actions, catastrophe management initiatives and other proactive steps to enhance profitability across our businesses. We look forward through year-end and beyond with a tremendous sense of optimism. Confident in our ability to deliver increasingly stronger results to execute on our strategic priorities and to deliver value for our shareholders, agent partners and customers. With that, I'll turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack, and good morning, everyone. I'll begin with an overview of our first quarter results, discuss our segment financial highlights and investment performance and then mention our 2024 outlook. We are very pleased with our strong start for the year, posting a first quarter combined ratio of 95.5%. We delivered a combined ratio, excluding catastrophes, of 89.5%, a 2.2 point improvement over the prior year quarter. Our current accident year loss ratio, excluding catastrophes, improved 1.9 points to 59.3% reflecting the continued earning-in of price increases. Our results were highlighted by a year-over-year reduction in the underlying loss ratio in Personal Lines and Specialty. Strong and steady margins in Core Commercial also contributed to the excellent performance.

The continued improvement in profitability validates the effectiveness of our margin recapture plan, and gives us confidence that we are on the right path to deliver on our long-term ROE target of 14% or higher. At 30.9%, our first quarter expense ratio was slightly above our full year target of 30.7%, primarily due to the timing of certain expenses. Relative to the first quarter of last year, the expense ratio is higher primarily driven by changes in variable compensation accruals between the two periods as well as increased investments in our Specialty business this year, consistent with our growth and market share gain strategy. We remain on track to deliver a full year expense ratio of 30.7% in 2024. Catastrophe activity was within our CAT assumption for the quarter, accounting for 6% of net earned premium. Northeast floods in January and hail events in February and March were the main contributors to CAT losses. Ex-CAT prior year development was approximately $10 million favorable in the quarter driven by overall favorability in Core Commercial and Specialty.

Each of the main lines of business in our Core segment developed favorably. Personal Lines prior year development was immaterial overall. Favorable development in Auto was offset by some unfavorable development in Home and Other. As we noted in our year-end call, the industry is experiencing elevated auto-related umbrella losses, and we prudently increased our recent prior year loss expectations in response. Overall, a combination of reserving prudence and favorable liability mix characteristics in Commercial Lines continues to serve us well. Now I'll review underlying segment results beginning with Specialty.

Our Specialty book continued its track record of profitability in the quarter, delivering an ex-CAT combined ratio of 85.4%, 2.4 points better than the prior year quarter. The underlying loss ratio of 48.7% marked an improvement of 4.8 points over the prior year quarter, primarily from lower-than-expected losses in our Specialty Property business. Our longer-term loss expectation for Specialty remains in the low 50s. From a top line perspective, we remain on track to accelerate Specialty growth to the upper single digits for the full 2024 year. Our Core Commercial segment delivered an ex-CAT combined ratio of 90.0% in the first quarter. a 2.1 point improvement year-over-year.

The Core Commercial current accident year loss ratio, excluding catastrophes, was relatively in line with our expectations and the prior year quarter at 58.5%. At the same time, we are intently watching for liability trends, including social inflation pressures in Casualty Lines. Trends in our book of business so far remains stable and very manageable. Our litigated frequency per exposure has returned to normal levels in 2022 and '23 after unusually low frequency of litigation in 2020 and '21.

Overall, general liability loss frequency continues to decline, while the mix of claims is shifting to more complex claims, contributing to an increased loss severity. Commercial auto liability frequency seems to have settled at a new normal somewhat below the pre-pandemic levels, while severity is elevated but manageable. Workers' compensation remains stable, with a slight increase in indemnity while medical inflation remains within our expectations.

Of course, we continue to monitor trends closely. We are managing our liability profile very carefully, as Jack discussed. Importantly, we are maintaining a very disciplined approach to our prudent liability loss picks and prior year estimations, taking small adjustments if and when needed, and promptly incorporating our updated view of trends into pricing and terms and conditions. We established this approach back in 2016 when we materially added to our reserve position as a new leadership team, while at the same time, initiating a shift in liability mix.

We also adhered to thoughtful prudence during low-frequency COVID periods. We continue to feel confident in our reserve position. Core Commercial Lines net written premiums grew 3% in the first quarter. Rates continue to hold firm in both property and most liability lines, while retention ticked down 1.7 points for the quarter due to targeted nonrenewals in middle market, in-keeping with our positive strategic decision to sacrifice some top line growth in exchange for improved margin.

Now moving on to Personal Lines. This segment delivered an ex-CAT combined ratio of 91.1%, an improvement of 5.1 points over the first quarter of 2023. The Personal Lines current accident year loss ratio, excluding catastrophes, improved 2.4 points to 65.6%, with the accelerating benefit of prior and current rate increases earning-in, coupled with moderating collision and property loss costs, we expect meaningful improvement in our ex-CAT loss ratio to continue throughout 2024.

Auto current accident year loss ratio, excluding catastrophes of 73.6% in the first quarter improved 2.2 points year-over-year, driven by the benefit of earned pricing increases. Additionally, our data indicates that collision loss severity is easing, in particular for used car prices. We are also experiencing some deceleration in the cost of parts as well as lower rental costs due to shorter repair cycle times.

At the same time, we remain cautious about liability coverages in auto and therefore, reflected an elevated loss expectation in current accident year picks in bodily injury. Similar to Commercial Auto, bodily injury frequency seems to have settled at a level below pre-COVID, while severity is elevated due to a higher occurrence of catastrophic claims, including pedestrian, bicycle and motorcycle hits and crashes at high speeds. However, as the benefit of higher rate continues to earn-in and the property loss trends ease, we expect significant loss ratio improvement for Auto throughout 2024.

Home and Other current accident year loss ratio, excluding catastrophes, improved 2.4 points to 54.5%, driven by rate and exposure adjustments earning in. Also within Home and Other, we prudently increased loss ratio expectation for umbrella coverage in response to prior year development and an increase in catastrophic auto accidents in the industry. Of course, umbrella rates are up meaningfully compared to historical levels and the market is reacting accordingly. Both Auto and Home Lines of business achieved strong pricing increases in the first quarter. Auto price was up 18.2%, and we expect it to continue to stay solid throughout the year. Home price was up 30.2% on average in the first quarter including 19.6 points of rate and 10.5 points of exposure increases.

We expect Personal Lines pricing to remain robust for the remainder of the year. However, Home exposures will tick down starting in the second quarter as insurance to value inflation adjustments return to more normal levels. Additionally, all peril and wind and hail deductibles start being applied to the majority of our target renewals in April, effectively lowering our risk on every property where such deductibles are applied. Equally important, earned prices will continue to accelerate for some time, increasing underwriting margins. Looking ahead, we expect the benefit of strong earned Personal Lines pricing and more stable property loss trend to drive a meaningfully improved Personal Lines current accident year ex-CAT loss ratio throughout 2024.

Furthermore, we anticipate some additional improvements as the result of increased home inspections and new business rigor implemented in 2023 in homeowners. We expect significant margin improvement in Auto and Home to pace a return to target profitability by the end of this year on a written basis and in 2025 on an earned basis.

Moving on to investment performance. Net investment income increased $11 million or about 14% to $89.7 million in the first quarter 2024, primarily driven by strong fixed income results from higher bond yields. The current rate environment should continue to provide an accumulating benefit to net investment income in 2024 and subsequent years. Historically, much of our investment portfolio was internally managed. After an in-depth and thoughtful analysis, we have made the decision to transfer management of the investment-grade fixed maturity portion of our investment assets to an external manager. We believe the switch to an outsourced model will allow us to benefit from the expansive capabilities of a large-scale asset manager, including their market depth and knowledge among others. Longer term, we hope that the external asset manager will help us to further optimize our investment portfolio's contribution to The Hanover's bottom line. We expect to complete this transition before the end of the second quarter. Moving on to book value and capital position.

Strong earnings in the first quarter were partially offset by an increase in the fixed income portfolio's unrealized loss position, marking a 1.9% sequential increase in GAAP book value per share to $70.22. Statutory surplus increased by about 5% to $2.8 billion. In this dynamic environment, we remain focused on ensuring we maintain ample financial flexibility to support our business. Although we refrained from making any share repurchases this quarter, returning capital to shareholders through regular quarterly dividends and share buybacks remain important elements of our long-term capital allocation strategy.

For the second quarter of 2024 our planned CAT load is 8.5%. As we mentioned in February, we have intended to pick higher on the probability curve in establishing our full year 2024 CAT load of 7%, and that it should decline for 2025. Our CAT guidance does not yet reflect the ultimate impact of substantial terms and conditions changes in Personal Lines that are currently underway.
In summary, we are off to a strong start in 2024. We are executing successfully on our margin recapture initiatives and disciplined growth strategies concentrated in our most profitable lines of business. Our financial and operational performance is underpinned by targeted underwriting, strong pricing and a commitment to provide the products and services our agent partners and customers value most. We will continue to focus on creating long-term growth and superior returns for our shareholders. With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And the first question will come from Michael Phillips with Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

First question, Jeff, on your comments there on Core Commercial, specifically GL, frequency is still down. good news there. I guess, maybe a brief description of why you think that's still the case and how long that could continue? And then part of that, too, is you said more complex claims. Can you talk about what you're seeing to describe those complex claims?

Jeffrey Mark Farber
Executive VP & CFO

Sure. In terms of the frequency, I think we're seeing some of our insureds there's less physical activity going into the premises. And in some cases, people aren't going into malls, people aren't going into restaurants quite as often, and that's creating a reduced frequency. That's been pretty dramatic. In terms of the complex claims, you're seeing less minor claims, so the overall proportion of claims is growing with respect to the complex claims or more severity that's having lawyer involvement and the like.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. And I guess, secondly, maybe just more higher level. You talked about in the Specialty business, the investments you're making, and some pressure on the expense ratio. How long will those investments continue? And then maybe just talk about growth opportunities or what those investments are going to accrue to you over the next couple of years?

John Conner Roche
President, CEO & Director

Yes, Mike, this is Jack. Thanks for that question. We're -- we're quite excited about the performance of our Specialty business. And as 2023 concluded, we made a decision to look at the best-performing areas of Specialty and make some additional investments from a resource standpoint. And we also invested in a platform that affected a few of our newer and profitable businesses. So I'll let Bryan kind of speak to that, but we know that the growth trajectory that we have ahead for Specialty will make the expense ratio very [parable]. And overall, what you should get from that is that we're investing in one of our key businesses.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. So I'll just give a little bit of more detail there, right? So for example, we've been leaning into technology for our E&S business, right? This is a fast-growing, very profitable area. We built out a completely new system for them. As you may know, they also have a lot of submissions and quotes in the E&S space. So we will get a lot of efficiency and upside from that type of investment. We're also adding staff to that area. And it's not just in our E&S area. We're also investing in the platform for our Industrial Property business, and we're investing in staff for our Marine business and our Healthcare businesses. So a number of our areas that we see is quite profitable, growing and having a lot of opportunity we're investing in. And I do think to Jack's point, that will earn through the revenue -- will earn through and that will absolutely help us on the expense side.

Jeffrey Mark Farber
Executive VP & CFO

Mike, notwithstanding investing heavily in our most profitable and ultimately fastest-growing business. We're still committed to the 30.7% expense ratio for the overall firm.

Operator

The next question will come from Michael Zaremski with BMO Capital Markets.

Jack Matten
BMO Capital Markets Equity Research

This is Jack on for Mike. You touched on this in the prepared remarks, but just curious if you could offer more color on the deconcentration strategy and progress in Personal Lines. Specifically in Michigan and perhaps in the Northeast as well? Are you reducing concentration in those geographies meaningfully? Or are you losing fewer customers and expect as you successfully push improved terms and conditions, including higher deductibles?

John Conner Roche
President, CEO & Director

Yes. This is Jack again. I frankly couldn't be any more pleased with the execution that we're seeing within Personal Lines and frankly, the rest of the enterprise, because as we think about property aggregations and we think about spreading our risk and implementing terms and conditions, that requires the entire enterprise to kind of contribute. But specific to Personal Lines, we are right on target with the thresholds and the milestones that we set for ourselves so much so that with the implementation, particularly on the renewal terms and conditions, if that continues to go as well as we project that we can continue to change the dials on our new business appetite. We've already done that in 5 of our states. We're looking at the next 5. So I think of this as a big picture is we are making meaningful progress on our margin recapture and simultaneously advancing our diversification efforts at a really good clip. So I couldn't be more pleased with the way that's playing out in Personal Lines.

Jeffrey Mark Farber
Executive VP & CFO

From a premium and insured perspective, you'll see some PIF shrink into 2025. But from a premium growth perspective, you'll start seeing some growth continuing to get larger from here on, from here forward.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

And this is Dick Lavey, one last point to your question about the Midwest versus the Northeast. Yes, exactly as Jeff said, we're manufacturing the PIF reduction in the Midwest 3x to 4x the rate in other geographies. That's really where the confection storm issues have prevailed and the wind and hail deductibles are being in place. The Northeast doesn't have those perils. So our Northeast business retention is higher and PIF shrinkage is less.

Jack Matten
BMO Capital Markets Equity Research

And second question is on reserve development, which was healthy again this quarter. I was wondering if there's any change in your high-level view on loss expense trends? You talked about frequency trends normalizing for some Casualty Lines. But wondering if you're seeing any changes in severity. I'm just asking given that some other insurers have increased their loss inflation forecast recently?

Jeffrey Mark Farber
Executive VP & CFO

Yes. So overall, we're very comfortable with our balance sheet and very prudent in how we set reserves. In Core Commercial, we -- every major line was favorable. So feeling really good about that. Overall, our Property Casualty mix, while a little bit challenging during the inflation in that period, serves us reasonably well as casualty trends spike up. And Specialty is also largely a claims-made policy construction, which will help us, Jack talked about the limit structure in his prepared remarks, where 93% is less than or equal to $1 million overall and 77% in Core.

And we also talked about how comfortable we are and the approach we took around reserving both in 2016 and 2020. And then finally, the concentration or our geographic focus, we -- back in '17, '18, '19, we really wanted to deemphasize the major metropolitan cities. Think about L.A., Chicago, New York, and that has really, really served us well. So while frequency is down, severity is up dramatically, and I think we've been prudent at picking and preparing for that all the while bringing up our severity picks.

Operator

The next question will come from Meyer Shields with KBW.

Unknown Analyst

Thank you. It's [Jane] on for Meyer. My first question is on the core loss ratio for commercial. It was flat year-over-year. Just curious what your expectation for here onward? Is the run rate that we should think about going forward?

Jeffrey Mark Farber
Executive VP & CFO

We're getting rate meaningfully above loss trend. And so we feel optimistic about our ability to have some improvement in the loss ratio going forward. From time to time, you have particularly higher or lower individual losses for property. I think a year ago, we happened to have had some lower levels losses this particular quarter, a little bit higher. But I'm pleased with how that business is producing at 58.5%, but I think we have a little bit of opportunity to improve that going forward as the rate earns in.

Unknown Analyst

Perfect. That's helpful. My second question is on Personal Auto. I saw like a slight reserve charge there. I know it's very small. Just wondering if you can add more color on that? Just want to make sure I'm not missing anything behind it.

Jeffrey Mark Farber
Executive VP & CFO

Can you clarify the question? I think I missed a word or two. It was about Personal Auto and what was the concern on the slide?

Unknown Analyst

It's not a concern, just there's a slight reserves charge on that?

Jeffrey Mark Farber
Executive VP & CFO

So in Personal Lines, overall, we had no development. Auto was favorable and Home was slightly -- it was adverse. And in Home, it was actually the umbrella. And truth be told, it's actually Auto that's showing itself in the umbrella. And I think we talked in our prepared remarks about some of the catastrophic activities such as pedestrian hits and some of those things are driving us to increase our picks for both prior and current period for umbrella.

Operator

The next question will come from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

Hi, everyone. The data on limits that you gave for the Liability exposures in Core Commercial is really helpful. Just kind of looking at continued growth in the Small Commercial book versus the underwriting and Middle Market over the past few quarters? Even though that's kind of geared towards the property side. I was wondering if you expect any sort of perceptible impact on the limits going forward in the liability book just kind of given maybe a greater emphasis on smaller accounts?

John Conner Roche
President, CEO & Director

Yes, Grace, this is Jack. Given our current trajectory of growth patterns, I think those -- that limits profile will be either equally as impressive or maybe even a little bit better because we are growing our smaller business, both in the Core Lines and in Specialty at a faster clip. And we believe we have a real competitive advantage in both of those areas. That said, I think as we move through this liability environment. Longer term, our hope and expectation is, is that we can put ourselves in a position so we can participate in the mid-range Specialty business and eventually middle market in a more robust way. But this is an environment where I think caution and prudence is appropriate. But I don't want you to miss the point that our relevance with agents and our ability to take the company to the next level, has some bearing on whether we can navigate these trends that we're all going through and grow all of our businesses into the future. So that's how we're approaching it.

Grace Helen Carter
BofA Securities, Research Division

And I guess following up on that, I think last quarter, you all had mentioned maybe a greater emphasis on Liability Lines versus history going forward. I was just wondering if given kind of, I guess, the noise is growing loud around social inflation around the industry, if there's been any tweaks to that plan so far on the magnitude of the shift? And just kind of any sort of progress on how you're thinking about that so far?

John Conner Roche
President, CEO & Director

Yes. I think we -- I think at the time, we were clear about the fact that this was not going to be a major step change in one direction or the other. We were clearly disadvantaged last year by having more property in our mix than some of our competitors. I believe we'll be less disadvantaged and potentially advantaged going forward if the liability trends continue to present themselves. So I think to your point, Grace, we're not having an identity crisis with our book mix, we're trying to optimize. And where we see particularly in certain geographies, in certain sectors. We are moving forward on our liability mix. Bryan spoke about that, particularly in E&S and the lower end of Management Liability and our Healthcare businesses. We have great margins, great transparency to what growth looks like. So overall, I think you're right, it will be somewhat balanced. We're pretty excited about our business mix going forward.

Operator

The next question is a follow-up from Michael Phillips with Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Just your last couple of questions there. On Small Commercial kind of prodded me on this one. Small Commercial has been kind of a sweet spot for the industry for a while. You guys are killing it there. But I guess because it's been such a sweet spot, it seems like -- it feels like at least going back a couple of years, that's a place where many people said they would want to go. And not sure you've seen them come into that space and maybe the competitive landscape has changed? And if not, here's why not? Maybe what's the moat to get into that space and be as successful as you guys are?

John Conner Roche
President, CEO & Director

Yes, Mike, I think that's very perceptive, and I'll let Dick speak to that. But I do believe that Small Commercial a business that takes significant investment and frankly, insight in terms of where the profit pools are? What pricing sophistication needs to look like? And so it is not something that you can just turn the switch and get into, and there have been carriers that have highlighted that and either not made the progress that they intended to make or in some cases, regressed. So Dick, maybe you can build on that.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

You hit it well. I mean this business is one where ease of doing business wins the day, and I know that's an overused term, but that means all the elements of the operating model aligned from the people, the way you have them, the way you do new business, the way renewals are handled. And of course, the platform that you put on the agent's desktop for them to submit and issue business. So as you know, we've made significant investments going back 3, 4 years on that.

Our first product BOP is now completely rolled out, and we're working hard to get more comp added to it. So other competitors haven't frankly made those levels of investments. There are some that we compete well against day-to-day, but we're absolutely thrilled with where this business is and looking into the future, now that the platform is nearing completion, we feel comfortable actually expanding distribution and finding other points of access.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ms. Oksana Lukasheva for any closing remarks. Please go ahead.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, everybody, for your interest and participation. We are looking forward to talking to you next quarter.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.