S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

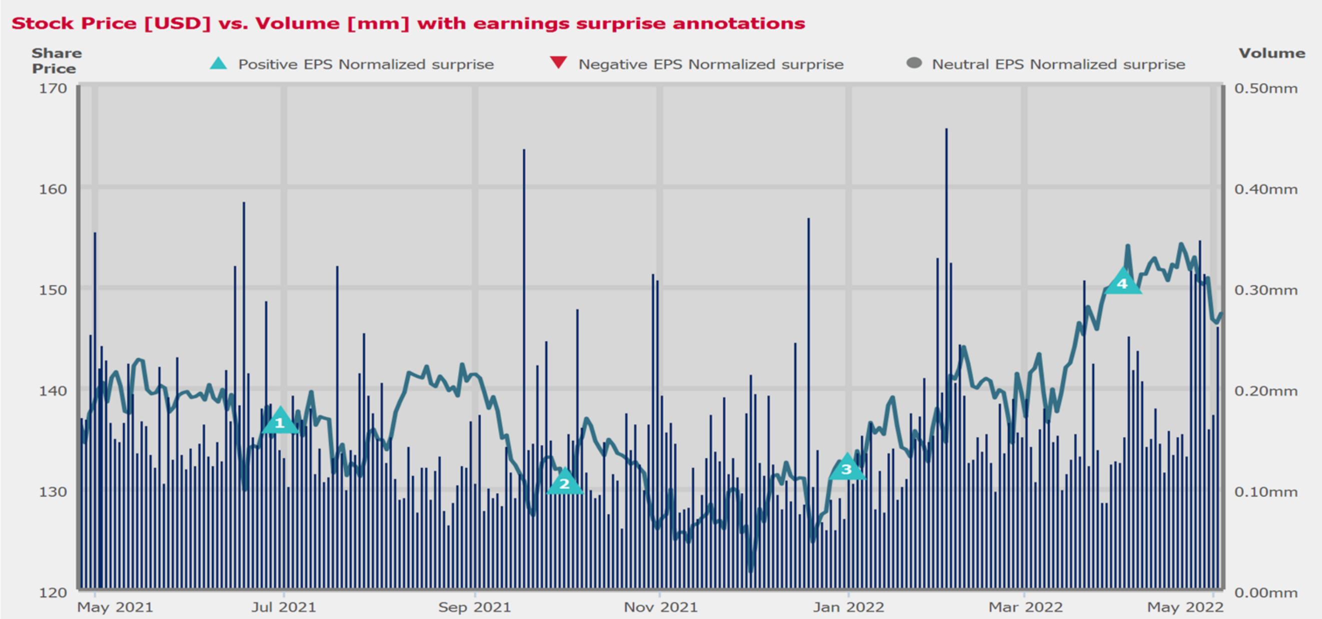
FQ1 2022 Earnings Call Transcripts

Wednesday, May 04, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-		-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	3.07	3.26	6.19	2.28	10.95	NA	NA
Revenue (mm)	1239.25	1312.30	5.89	1258.40	5229.37	NA	NA

Currency: USD
Consensus as of May-04-2022 4:01 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	2.31	2.85	1 23.38 %
FQ3 2021	0.62	0.85	2 37.10 %
FQ4 2021	2.54	3.38	3 32.55 %
FQ1 2022	3.07	3.26	4 6.19 %

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
Executive VP & CFO

John Conner Roche
President, CEO & Director

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Grace Helen Carter
BofA Securities, Research Division

Matthew John Carletti
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Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

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Boenning and Scattergood, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Hanover Insurance First Quarter 2022 Earnings Conference 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 regarding, among other things, our outlook and guidance for 2022 and beyond, the ongoing impacts of the COVID-19 pandemic, economic conditions and related impacts, including inflation and other risks and uncertainties that could affect the company performance and/or cause actual results to differ materially from those anticipated.

We caution you with respect to reliance on 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 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, 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, and good morning, everyone. I'll begin today's call by offering our perspective on the broader insurance and economic environment and how it's impacting the Hanover. I'll then provide a strategic review of each of our business segments; Jeff will review our financial results in more detail; and then we'll open up the line and take your questions. We began 2022 with a very strong first quarter, in which we executed against our strategic initiatives and further strengthened our competitive position.

We achieved a 15.7% operating return on equity and operating earnings per share of $3.26. At the same time, we grew our top line by 9.7% to $1.3 billion in quarterly net premiums written, fueled by strong growth in each of our business segments. We're very pleased with our exceptional financial performance in the quarter, particularly as the industry encountered macroeconomic challenges, including meaningfully higher interest rates, inflation and continued supply chain disruptions.

Russia's invasion of Ukraine exacerbated those issues, contributing to increased uncertainty in the global economy. The effects of inflation are evident across the P&C industry. Like many of our peers, we felt its impact throughout the first quarter, particularly in our home and auto property-related lines. However, we remain highly confident in our resilience and ability to successfully navigate each of our businesses through this dynamic environment. We are aligning our pricing in recognition of these higher exposures. In addition, we are leaning into our agency partnerships and organizational agility to make the necessary pricing and property valuation adjustments, while maintaining stability in our book of business.

In the first quarter, we also sustained our auto frequency benefit at a similar level to the fourth quarter of 2021, and we believe this benefit should continue to soften the impact of increased property severity within personal lines, albeit at a potentially lower level as we go through the year.

From a historical perspective, insurance has generally performed well in inflationary environments. In particular, the P&C industry has various effective tools at its disposal to help offset the pressure, including rate and exposure increases and it certainly benefits meaningfully from the higher interest rates over time.

Our company is well positioned to respond adeptly to inflation, supported by our sophisticated monitoring tools, data analytics and advanced technology capabilities. As such, we remain on the trajectory we laid out for you at our Investor Day in September. Despite increased property costs, we feel good about the near-term outlook we shared with you in January, while we believe our longer-term performance should be augmented by higher investment returns.

With that overview, I'll now discuss our first quarter financial highlights and recent business performance, starting with Core Commercial. Our Core Commercial segment delivered profitable top line growth of 9.6% in the quarter with a combined ratio of 93%. We continued to drive healthy price increases of 9.7% across our core commercial book, with rate up 6.3% for the quarter and retention near record levels. The improvement in the economic activity and increases in insured values provided meaningful lift to the exposure component of renewal premiums. We expect this trend to continue for at least the duration of the year.

Across the industry, new business flow and quality faced increasing challenges during the quarter, consistent with record retention levels, due in part to the industry-wide workforce constraints affecting independent agents. However, our differentiated distribution approach enabled us to stay focused on the superior opportunities presented by our product offerings and consolidation efforts. Additionally, we continue to leverage our customer service center capabilities to help our agent partners lock in renewal business at very high levels in spite of their ongoing talent shortages.

Our Small Commercial business delivered substantial growth in the quarter, up 10.3%, driven by strong pricing and retention as well as the ongoing rollout of our industry-leading TAP sales quote and issue platform. This impressive platform now available in 37 states, generated approximately 20% more new business submissions during the quarter. We couldn't be more thrilled with our agents positive and enthusiastic response to our TAP sales platform. Adoption levels have far exceeded our expectations, with the current number of users increasing 30% over prior year. Based on the tremendous early success we have achieved, we expect that our TAP sales platform will continue to drive strong new business generation in 2022 and beyond.

Our middle market business also performed very well in the quarter as we focused on optimizing the portfolio through pricing, new exposure management tools and analytics to enhance rate, exposures and profitability of this book. Our previous investments in specific industry niches enables us to attract high-quality accounts in a very proactive manner.

Now let's turn to our newly presented segment, Specialty. Over the years, our specialty book has evolved into a broadly diversified segment that encompasses 8 unique businesses and 18 product areas, serving small and midsized customers, primarily through retail agents. This segment provides one of the most unique and comprehensive product portfolios in the P&C market for retail agents, including professional and executive lines, marine, excess and surplus lines as well as programs and surety.

These capabilities are delivered through highly efficient operating models, including a best-in-class customer service center and coordinated agency relationship management. And importantly, we take a holistic view of our customer, addressing the entirety of their risk management needs wherever appropriate from an underwriting perspective. The information we have gleaned from our proprietary analytic tools indicates that our capabilities and approach open up approximately $45 billion of business opportunities in our targeted markets. We are looking forward to capitalizing on these significant opportunities as we deliberately and profitably grow our business.

In the first quarter, we continued to build on our leading position in the small to midsized Specialty segment. Specialty delivered strong top line growth of 9.4%, propelled by stable rate increases of 8.4% in near record retention. Moreover, we continue to generate strong profitability in this line, delivering a combined ratio of 87.7% in the quarter, which compares nicely versus our target profitability, even adjusting for lower-than-expected catastrophes in the quarter. Our most profitable businesses, including professional and executive lines, surety and E&S, achieved double-digit growth and strong market share gains.

Looking ahead, we're especially focused on opportunities to increase the casualty mix in our specialty book in specific lines within professional and executive lines and retail E&S. In addition, following a very successful launch of our specialty general liability product in 2021, we'll continue to expand this line into new territories this year. Over time, we aim to further diversify our earnings stream with a healthy balance of property and casualty business.

Now moving on to Personal Lines. We delivered a 97.1% combined ratio in the first quarter, and 93.5% excluding catastrophes. This business experienced increased inflation in materials and labor costs on both first and fourth quarter claims. We are addressing that gap through thoughtful and accelerated pricing, which has already started to hit the market, as well as other operational actions such as the broader use of advanced risk management tools. Jeff will cover both in more detail shortly.

While the property-related severity trends were elevated in the quarter, overall, Auto frequency levels remain favorable compared to pre-pandemic levels, and are helping to meaningfully offset inflationary impacts. We are very pleased with the quality and performance of our Personal Lines book of business.

Business generated by our Prestige total account offering has grown nearly 70% over the last year and now represents over 8% of our total book. Account business in total now represents 87% of our Personal Lines book. At the same time, approximately 25% of our customers now have an umbrella coverage, one of the most profitable coverages in Personal Lines, and this number continues to climb. In this context, we're very pleased with the 10.1% growth and 88.8% retention we achieved in Personal Lines this quarter. Our positive trajectory demonstrates the quality of our portfolio as well as the robust strength of our enviable agency partnerships. Overall, we are very confident in the ability of our personal lines book to perform exceptionally well over the long term.

Before I wrap up, it's important to acknowledge that we believe it's unlikely many of the headwinds stemming from this unpredictable economic environment will subside imminently. And if my 3.5 decades of experience in the P&C industry has taught me anything, it's that in times like these, it's more critical than ever to have an experienced, market focused, agile and collaborative team to address and overcome challenges, and seek the right opportunities. The outstanding work and commitment of our more than 4,400 employees across the U.S. has been instrumental in driving our overall performance and strong start to the year.

I'm exceptionally proud of the talent within the Hanover and our employees drive to make a difference in our industry for the benefit of all our stakeholders. Our team is connected by a common set of what we call our care values: collaboration, accountability, respect and empowerment. These values reflect our increasingly diverse, inclusive and equitable culture, which continues to fuel our growth and success.

I am particularly pleased that our company continues to deliver value for all of those who depend on us, while being recognized as a Leading Employer and Corporate Citizen by Forbes, Newsweek, The Human Rights Campaign Foundation and others. This recognition underscores an important point at the intersection of our corporate culture and our business model, we are focused on building a stronger and more resilient organization that will continue to prosper as we deliver on the opportunities for tomorrow.

In summary, we are advancing our mission to be the premier P&C company in the independent agency channel for the nation's best agents. We continue to set our company apart from our competition through the combination of specialized products and a customer-centric approach. We're confident in our ability to manage prevailing market conditions supported by our talented team, our market-leading industry insight and our unparalleled data and analytic capabilities. And we're highly confident that the strong foundation we have built, coupled with the continued execution of our long-term strategy, will result in strong, sustainable financial performance, enabling us to deliver enhanced returns to our shareholders in the quarters and years ahead.

And now I'll turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack, and good morning, everyone. Before I discuss our financial performance in the quarter, let me remind you that on March 28, we published select historical financial information reflecting the changes in our segment reporting announced on our year-end 2021 earnings call. Select historical financial information for 2019 through 2021 is available in the Investors section of our website, along with a supplemental presentation on our new reporting segments and additional descriptions and definitions.

Turning to our consolidated results for the first quarter. We reported strong net and operating income per share, and delivered a very strong operating ROE of 15.7%. Our combined ratio was 93.4% compared with 98.8% in the prior year quarter, reflecting the benefit of lower catastrophe losses in the first quarter of this year. Catastrophe losses representing 3.6% of net earned premium in Q1 2022, which compares favorably with our expected Q1 cat load of 4.8%, and with the 11.5% catastrophe loss ratio we reported in the first quarter of last year.

Our expense ratio for the first quarter of 2022 was 31.1% compared with 31.6% in the first quarter of 2021, and in line with our 2022 full year target of 31.1%. We continue to benefit from fixed cost leverage, while remaining focused on driving operational efficiencies across the business to fund investments and further enhance our performance.

Prior year reserve development was favorable in the quarter by $6 million, stemming from Specialty and Core Commercial. The Commercial lines favorability was partially offset by unfavorable prior year development in homeowners, which I will discuss shortly.

Turning to a discussion of our underwriting results by segment, starting with Core Commercial. Our combined ratio, excluding catastrophes, improved 1.1 points to 88.9% from 90% in the first quarter of 2021. Our Core Commercial current accident year loss ratio, excluding catastrophes, was 57.4%, in line with the prior year quarter. We experienced the benefit of earning in rate increases taken last year that were above loss trends.

This improvement was partly offset by higher large losses in commercial multi-peril, in particular, from a tornado event that did not meet the definition of a catastrophe. While there is a level of randomness to property large losses, we are constantly working on our mix and continued to push for needed rate increases in property, which the market certainly supports.

Turning to Specialty. Our combined ratio, excluding catastrophes, decreased 4.3 points from the prior year quarter to 85%, driven by the favorable prior year development. Development ran favorably across most subsegments and multiple accident years. At the same time, we continue to set our reserves with the expectation that social inflation has not abated, but rather was temporarily deferred during the pandemic. We are vigilantly watching the signs of returning litigation activity, such as the number of litigated claims and court reopenings. In response, we remain thoughtful in our underwriting philosophy and pricing actions, and certainly in our prudent reserving processes.

Specialty current accident year loss ratio, excluding catastrophes, was 54.3% slightly elevated compared to the first quarter of 2021. Similar to core commercial, we continue to benefit from the earning in of rate increases in Specialty. However, this improvement was offset by 2 larger losses in Property Lines.

Turning to Personal Lines. The increase in our Personal Lines combined ratio primarily reflected the impact of increased severity on auto and homeowners claims. Personal Auto current accident year loss ratio, excluding catastrophes, increased 10.4 points to 70.4% from 60% in the year earlier period, driven by an increase in severity and, to a lower extent, an increase in frequency from very suppressed levels in the first quarter 2021.

As expected, our Auto loss ratio was slightly lower than the pre-pandemic first quarter of 2019 despite elevated property severity, and we continue to benefit from lower claims frequency, which is holding at similar levels to the fourth quarter 2021. That being said, we expect the continuation of inflationary pressures through the remainder of the year will likely cause us to deviate temporarily from our expectation of keeping the underlying loss ratio in Personal Auto below pre-pandemic levels in the second half of the year.

We would expect the full year 2022 Personal Auto loss ratio to be a couple of points higher than the prepandemic level, which we believe would still compare very favorably to the industry experience. We are deftly reacting to these evolving trends by seeking even more robust rate increases in personal auto. Rate filings have taken effect in 1/3 of our personal line states, and we have additional approved increases and another 1/3 of states planned through the end of the second quarter of 2022.

We expect to achieve 5% or higher in renewal premium change by year-end and much higher increases for new business. We sustained healthy rate increases in the past and the renewal rates we are seeking are reasonable. As such, we do not anticipate any meaningful pushback from a regulatory perspective. We are actively increasing new business rates in Auto as well. We expect these increases to be near double digits in the second quarter and for the remainder of the year.

In keeping with our prior strategy, we continue to take a measured approach to renewals, protecting profitable business while pricing new business more fully.

In Home and Other, the current accident year loss ratio, excluding catastrophes, was 53.1%, up 1 point from the prior year quarter. Some of the inflation severity impact in Q1 versus the prior year quarter may be less noticeable because of elevated large fire and non-cat weather losses in Q1 2021.

The loss ratio increase in Q1 2022 was mainly driven by higher loss cost severity due to labor and material price increases and continuing supply chain disruption, leading to higher repair costs, repair delays and anticipated increased supplemental payments on closed claims. As you may know, supplemental payments refer to additional charges identified after a claim has been settled and after repair work has been completed. We have seen a gradual increase in supplemental payments through most of 2021, and an acceleration of this trend into the beginning of 2022, causing us to take $13.6 million of unfavorable development, stemming mostly from fourth quarter 2021 claims.

We have been achieving very robust rate increases in our homeowners book of business, including a renewal price change of 6.9% in Q4 '21, and 7.7% in Q1 '22.

In view of a more sustained inflationary environment, we've now accelerated our rate actions, filing rate increases in 9 states in Q1 and Q2, representing 70% of our homeowners premium. We are also increasing insured values in response to higher materials inflation and labor costs, which should further contribute to higher renewal premium increases and should help our lost performance in the latter part of the year.

In addition, we're implementing an array of non-rate programs, including using aerial imagery to help better identify property hazards and perils, and leveraging our advanced technology tools to estimate house replacement values more precisely. With robust severity assumptions built into our full year 2022 estimates, and the benefit of additional pricing actions that will hit our Home results in the latter part of the year, notwithstanding the uncertain environment, we believe we will be able to achieve 2022 current accident year loss ratio in Home and Other, relatively in line with 2021 full year.

We are leveraging our sophisticated data and analytics, which provide detailed insight into the latest assessment of trends, allowing us to react nimbly and quickly to changes in the market. This gives us full confidence in our ability to align pricing with increasing insured values. Moreover, account retention continues to be exceptionally strong and exceed our expectations, underscoring the effectiveness of our account-focused strategy and the pricing flexibility that it provides.

Looking ahead, we expect to achieve upper single-digit renewal price change in homeowners in the next 2 quarters, with an expectation to exit the year at 11% to 13% or better. Though we recognize it takes time for rate increases to have the desired effect, we believe we are in a trajectory to bring our profitability in Personal Lines back to target, top quartile return levels in 2023, from the slightly elevated loss ratio in 2022. We are confident in our ability to execute in the face of near-term environmental headwinds and believe we are well positioned to profitably grow our business over time.

Moving to investment performance. Our net investment income was $76.9 million for the quarter in line with the prior year as both periods benefited from similar levels of strong partnership income. Keep in mind that we report partnership results on a 1 quarter lag, and we can have some performance variability from period to period. We anticipate that partnership results in the second quarter might be influenced by declining public equity market multiples as well as interest rate and spread volatility. Over the long term, the interest rate environment is a substantial net positive for net investment income overall. We expect to see a sizable lift from fixed maturity net investment income in 2022, and an even more meaningful increase in 2023 and beyond.

In the month of April, new money rates on purchases of fixed maturities have been well above total portfolio yield, and also above what is rolling off. From a fixed income portfolio valuation perspective, this was a particularly impactful quarter due to the sharp increase in rates. This resulted in a meaningful unfavorable change of about $380 million after tax in our net unrealized position.

The unrealized appreciation of $185 million after tax at year-end move to unrealized depreciation of $195 million after tax at the end of March. Given that we typically hold fixed income securities to maturity, we are not overly concerned with these temporary interest rate-based valuation adjustments.

With that said, our investment portfolio remains very well positioned. Fixed income securities and cash represent 85% of the total $9 billion portfolio. Our fixed maturity investment portfolio has a duration of 4.9 years, and is 95% investment grade. This high-quality, well-laddered and diversified portfolio, with a weighted average rating of A plus, gives us the utmost confidence in the ability of the portfolio to perform over the long term.

Investment values were reflected in our overall book value per share, which decreased to 79.58 or 10.2% from December 31, 2021. Excluding unrealized losses on fixed income, book value per share increased 2% to 85.06.

Our capital position remains strong, and we continue to focus on being prudent stewards of our shareholders' capital. In terms of share repurchases, we were in the market in the first quarter, repurchasing 119,000 shares. We continue to actively evaluate the most effective and advantageous capital uses in the current environment, including substantial organic growth as well as capital management opportunities.

As Jack noted, we are very pleased with the 15.7% operating ROE we generated in the quarter. In this market environment, it is more important than ever to have a well-diversified book of business with risks deliberately spread by geography, product line and market segments.

As to our outlook, after carefully considering the market and business signals available to us today, particularly our personal lines outlook, we do not see the need to update our original consolidated combined ratio guidance range for 2022. We expect our second quarter cat load to be 6.1%.

I'll conclude my comments by saying we are pleased with our impressive performance in a very dynamic quarter. We are confident in our ability to drive broad-based profitability expansion across each of our business segments despite macro challenges, supported by our financial strength and the formidable foundation we have built, and we will continue to demonstrate our resilience and take advantage of the opportunities ahead, creating value over the long term.
With that, we will now open the line for questions. Operator?

Question and Answer

Operator

We will now begin the question-and-answer session. [Operator Instructions]. Our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Jack, you spoke a bit about your specialty business, and I was hoping you could peel back the onion maybe a little bit more. And specifically, you've talked in the past about how part of the opportunity there relates to, particularly the agencies that you have really good relationships with, kind of using your agency analytic tools and identifying Specialty Lines of business that are placed elsewhere and the ability to kind of bring that over to Hanover and kind of create a bigger package for you. Can you talk a little bit about kind of how much of the growth we've seen in Specialty has been along those lines or where you stand in that process?

John Conner Roche
President, CEO & Director

Yes. Thanks, Matt, for that question. And we couldn't really be more excited about our Specialty business and the trajectory we're on. And I would tell you that we continue to have real momentum in the specialty lines that travel alone, if you will, on a monoline basis, with kind of an expert-to-expert experience that we create for our retail agents. Oftentimes, as you know, our bigger and more sophisticated agents have dedicated units, so we're very much talking to our franchise agents, but we're doing it in a more kind of specialized expert-to-expert experience.

But increasingly, we're gaining momentum on kind of lines that travel, if you will, with the rest of the package. And that really requires us to be even more diligent with our operating models and our coordination with the field. So it's a really healthy balance of getting specialized business in the distribution directly, and then also kind of a coordinated approach.

And maybe I'll let Bryan Salvatore kind of elaborate on that real quickly.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. Thanks, Matt. So look, as Jack said, a good deal of our business comes from that, call it, that stand-alone placement. However, I could share with you that more than 70% of our business comes from key Hanover agents that have large relationships with our Core Commercial business. And so we continue to work very closely with our field folks. And frankly, even as we build out our technology and our capabilities like our customer service center, all of that is expanding our capabilities for the agents that we have long-standing and large relationships with. And I guess I'll just add relative to the technology component, we -- a piece of that has been building out portals. And as we built out and are building out those portals, we actually attach them to that TAP sales capability that we built in small so that our agents have that one experience as they're looking to place multiple lines. So all of that is really adding to our total growth.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. That's really helpful color. And then just one other question. You guys always give great kind of stats every quarter on kind of pure renewal rate change as well as premium price change. And I know there's a -- we hear a lot that -- obviously, the big difference there is the exposure, and we hear a lot about kind of increases in exposure that a part of it acts like rate, and a part of it doesn't. Can you help us understand that a little bit better just in terms of when we look at that kind of renewal price change as opposed to the pure price change, how you think about that increase in exposure and what might act as rate and what might act as kind of increased exposure in the true sense?

John Conner Roche
President, CEO & Director

Sure. Well, the most obvious factor within the exposure basis that contribute to enhanced pricing, if you will, is on the Property Lines or the Property-related lines where we can get increased insurance to value in the limits themselves. Most of our losses obviously are partial losses. So if we can get more value to apply our rates to, that in itself is kind of the rate that keeps giving, and it's important in these inflationary times that we increase the insurance to value and get our property limits up appropriately. And there's a function of that, frankly, in really all of our various businesses to make sure that we're doing that. We also -- when you look at lines like workers' comp or liability keeping up with the sales and the payroll and knowing where those increased payrolls and sales contribute truly to more exposure versus just essentially enhance overall pricing capability. So we try to do a pretty good job of segmenting that internally. But net-net, the biggest impact, Matt, is in getting those property values up appropriately. That truly allows us to overwhelm the partial losses that we generally experience.

Operator

The next question is from Meyer Shields with KBW.

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

Jack, in your introductory comments, you talked about -- I don't want to get this wrong, challenges to the quality of new business flow. And I was hoping that you could explain that. Is that the accounts are getting worse so that it's harder to get them because of retention?

John Conner Roche
President, CEO & Director

Yes. Thanks, Meyer. I think if you just think of most competitors are suggesting that they have kind of a high watermark in their renewal retention rates, and then some of the more distressed business is making its way into the E&S market. So just mathematically, there's less new business to go around when those dynamics come forward. And as I said in my prepared remarks, there's less capacity for agents to remarket business on the margin.

So overall, what that means to the marketplace is that you have business that is most stressed from an underwriting standpoint or getting the most pricing increases that get offered to the underwriters, and if you don't have real pipelining going on, if you don't have real partnership behavior to try to extract the business you want versus just simply react to the business that comes to the market, the quality of the new business in this stage of the cycle tends to deteriorate. So that's what we're talking about, and we, as you would expect, stress test this every month and every quarter to make sure that we're getting high-quality new business and not just whatever comes to the market.

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

Okay. That's very helpful. I also wanted to ask a question about workers' compensation, if I can. I guess we're starting to see wage growth in the broader economy. And I was wondering if you could talk about what you're seeing, what you're booking with regard to indemnity trends?

John Conner Roche
President, CEO & Director

Yes. We're watching this like a hawk. I think you know that the workers' comp market has continued to be quite profitable, but accident year trends have been increasing over time. And we are seeing the dynamic of a competitive employment market, driving up payrolls. The good news is that 2/3 of the costs in workers' comp are still medical payments versus indemnity payments, but we track that by industry and really by job type to make sure that we are keeping up with the payrolls and looking at the loss trends in terms of how that hits our loss costs on the back end. But I would tell you, net-net, because workers' comp is based on payrolls, you're able to keep up with that quite easily as long as you're auditing the accounts properly.

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

Okay. So it's not a net margin concern?

Jeffrey Mark Farber
Executive VP & CFO

No. We've been very prudent with our loss picks over the last year plus just to make sure that the profitability reduced rates that people are getting what that we're prepared for.

Operator

[Operator Instructions]. The next question is from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

Looking at Specialty results for the quarter, that was a pretty sizable reserve release relative to recent quarters. So I was just wondering if we could talk a little bit more about some of the underlying movements across different lines of business and accident years there?

Jeffrey Mark Farber
Executive VP & CFO

Grace, it was pretty well spread across a variety of different elements. Bryan has talked before about the 9 different businesses and then various sub businesses. So between various businesses and also accident years, there was no particular business that squeezed a lot of it out. It was very broad-based and diverse.

Grace Helen Carter
BofA Securities, Research Division

Thinking about rate in Core Commercial, I was wondering if we could just get kind of any more color on the rate being achieved across different lines of business? And I guess just the how you see the gap between the rate being achieved and loss cost trends, and how that might evolve over the course of the year?

John Conner Roche
President, CEO & Director

Yes. This is Jack again, Grace. Listen, we're quite proud of the fact that our team is remaining very disciplined on our rate and overall pricing in Core Commercial. That's true in small commercial as well as in middle market. As we continue to see property volatility, we're seeing increased opportunities to get more rate on the property line of business. And I think as we look at the potential of liability trends developing out, our folks are staying disciplined on the liability lines, including Auto. So overall, I think we feel like we're outpacing the long-term loss trends. And I think in some ways, may be outperforming the market, because of the discipline that we're showing and maintaining very high retention ratios, while we push for that rate. So real pleased with the performance of the team.

Operator

This concludes our question-and-answer session. I would like to -- I'm sorry, we still have 1 more question that just popped in, and that is from Bob Farnam with Boenning and Scattergood.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

So Jeff, I know we briefly talked about the net investment income. And I just wanted to know kind of going forward, are you planning on changing the investment profile to capture more of the increasing interest rates out there? And I'm just trying to get a feel for how quickly the net investment income can improve over '22 and '23, I know you mentioned that new yields are -- or new money yields are much higher than the existing. So I'm just kind of curious what we should expect from that line?

John Conner Roche
President, CEO & Director

Bob, thank goodness you got in. That was close there. Delighted to have the question. So new money yields for us are running about 150 basis points as we sit today, higher than what we would have planned for the 2022 year. So 150 basis points is a pretty powerful impact. I'll do a little math for you, but most of the people on the call are very good at math. So it won't go too far.

But 1/7 of the portfolio, and our portfolio for fixed income is over $7 billion, rolls off each year. So quick and dirty, for 2022, the new money yields have a $5 million to $10 million favorable impact relative to what we would have expected or our NII guidance at the beginning of the year, keeping partnerships aside. And 2023 impact will be $20 million to $25 million more favorable, again, excluding what happens with partnerships.

Robert Edward Farnam
Boenning and Scattergood, Inc., Research Division

Great. Okay. I just wanted a little bit of color there. So that certainly helps.

Operator

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

Oksana Lukasheva
Senior Vice President of Corporate Finance

All right. Thank you, everybody, for your participation today, and 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.