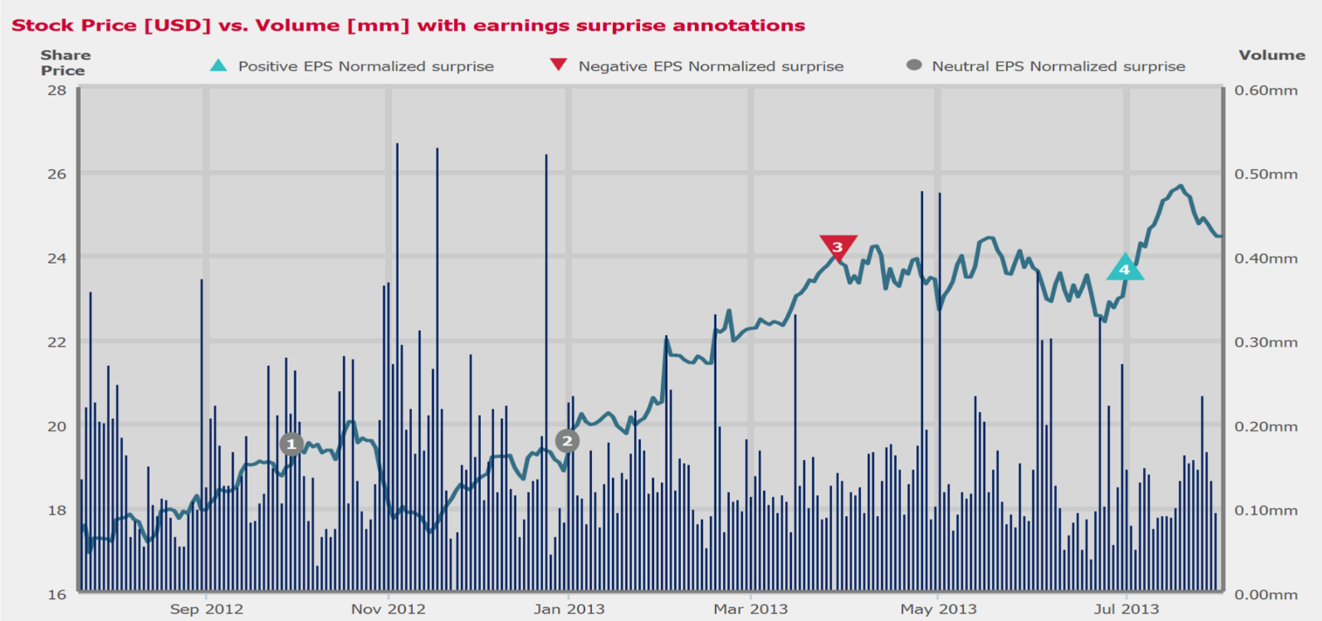
S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI
FQ3 2013 Earnings Call Transcripts
Thursday, October 31, 2013 12:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.42	(4.55 %)	0.45	1.67	1.87
Revenue (mm)	482.34	486.81	0.93	477.28	1843.01	1990.62

Currency: USD
Consensus as of Oct-31-2013 2:39 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	0.34	0.34	0.00 %
FQ4 2012	(0.17)	(0.04)	NM
FQ1 2013	0.38	0.36	(5.26 %)
FQ2 2013	0.35	0.42	20.00 %

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Call Participants

EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

John Joseph Marchioni
President & COO

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Robert Paun
Sidoti & Company, LLC

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's Third Quarter 2013 Earnings Release Conference Call. At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino.

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

Thank you. Good morning. And welcome to Selective Insurance Group's third quarter 2013 conference call. This call is being simulcast on our website and replay will be available through December 2, 2013.

A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website www.selective.com.

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

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties.

We refer you to Selective's annual report on Form 10-K and any subsequent Form 10-Q filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

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

Now I'll turn the call over to Dale to review third quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks, Jennifer. Good morning. We are very pleased with our third quarter results as commercial and personal lines pricing remained strong and we continue to executive on our underwriting and claims initiatives.

For the quarter, operating income of $0.42 per diluted share was up from $0.34 per diluted share in the third quarter of 2012, with the improvement largely driven by better underwriting results.

The third quarter statutory combined ratio improved by 2.1 points from a year ago to 96.3%. Catastrophe losses were $11.9 million pretax or 2.7 points, up slightly from $9.6 million pretax or 2.4 points a year ago.

The driver for catastrophe losses this quarter was a series of Midwest thunder storms but the largest one Cat 24 [ph] accounting for $7.5 million. We also have favorable prior year casualty development in the quarter of $3.5 million or 0.8 points, compared to $7 million or 1.7 points a year ago.

Overall, statuary net premiums written were up 9% in the quarter, driven by standard commercial lines, which were up 10% and excess and surplus lines which increased 20%. Standard commercial lines renewal pure price was up 7.9% and retention held steady at 83% in the quarter.

The commercial lines statutory combined ratio in the quarter was 95.6%, including 0.7 points of catastrophe losses. Commercial property generated a 67% statutory combined ratio in the quarter, 14.3 points lower than a year ago, due to fewer large losses.

General liability, our largest line of business produced the 96.2% combined ratio. This is more than a 4-point improvement from the third quarter of 2012 with 3 points of the improvement coming from favorable prior year reserve development.

Workers compensation produced 118.2% statutory combined ratio in the quarter, which included $3.5 million of unfavorable prior development driven by older accident years. We have carefully managed growth in workers' comp and year-to-date through September net premiums written are up only 4%, which includes renewal pure price of 7.8%, as compared to 9% growth and 7.6% pure price in our standard commercial lines booked.

Our workers comp business is written as part of an overall account and not on a monoline basis. Also I would like to point out that we don't write workers compensation in our contract binding authority E&S business.

While our workers compensation results need to improve we have a number of initiatives in place to address this line of profitability including rate increases that in general have outpaced our overall loss cost strengths.

More importantly, given the contract to certain industry events of late, it's reasonable to question the quality of any companies workers comp reserve position. We do a ground up reserve analysis of every major line of business every quarter. This allows us to quickly react to any reserve issues we identify.

As you have seen, we have taken steps as we recognize developing trends in the workers comp line of business and book adverse development as we felt it was appropriate. Although, we strive to get reserves right by line of business, we also recognize the impossibility of complete knowledge and therefore, we maintain an overall conservative reserve position.

Over the last 17 years, the variability in our reserve development has had a standard deviation of only 1.1%, while the industry has had standard deviation of over twice that.

Personal lines net premium written grew 2% in the quarter to $81 million and the statutory combined ratio was 97.6%. Results included 11.7 points of catastrophe losses, which were almost exclusive in the homeowners' line and largely the result of one event that impacted states in the Midwest.

Personal lines pricing exceeded our expectations in the quarter with renewal rate of 7.5% and we continues to see the benefits of our pricing success in underlying results. In the quarter, our personal line ex-catastrophe combined ratio was 85.9% and year-to-date we are at 89.9%, both improved slightly from the comparable 2012 periods. Retention in personal lines continues to be strong at 86%.

Net premiums written for our E&S operations grew to $36 million in the third quarter, up 20% from a year ago. The statutory combined ratio of 100.5% included 3.1 points of catastrophe losses.

We are pleased with the improvement in our newest segment and are on track for E&S operations to perform in line with our overall goal of approximately a 95% combined ratio in 2014.

Turning to investments. Third quarter after-tax investment income was $25 million, up 4% from a year ago. Alternative investments primarily drove the increase with pretax income of $2.6 million compared to $900,000 in the third quarter of 2012.

Invested assets increased 4% from a year ago to $4.5 billion, driven primarily by increased operating cash flows and the net proceeds from our senior note offering in February. Operating cash flows as percent of net premiums written were 17% year-to-date, which compares to 14% in 2012 and 8% in 2011, partially offsetting these increases was the mark-to-market impact of $122 million on the fixed income portfolio, primarily driven by higher interest rates.

After-tax new money rates of 1.5% in the quarter were lower than our current portfolio yield, which continues to impact our investment income. As a result, the after-tax yields on our fixed income portfolio were down 13 basis points from a year ago to 2.3%. In spite of the decline in fixed income yield, the overall portfolio yield was in line with the third quarter of last year.

Given the pressure on investment income from low interest rates, our 95% combined ratio goal for 2014 will now approximate closer to an 11% ROE than 12%. In the quarter, we realized almost $9 million after-tax of capital gains in the investment portfolio related to a rebalancing of our domestic equity portfolio. Compared to September 30, 2012, the overall portfolio unrealized gain position declined from $211 million to $84 million pretax at September 30, largely due to rising interest rates.

Also of note is the quarter end unrecognized gain position in the fixed income held-to-maturity portfolio of $27 million pretax, or $0.31 per share after-tax. Our overall fixed income portfolio maintains a high credit quality of AA- and duration of 3.5 years including short-term investments.

Surplus and stockholders' equity ended the quarter at $1.2 billion and $1.1 billion respectively. Book value per share at September 30 was $20.16, up 2% from year end as the negative impact of rising interest rates on the portfolios unrealized gains has been more than offset by positive net income.

Our premium to surplus ratio was 1.5:1 at September 30. In the quarter, we achieved operating ROE of 8.6% and total ROE of 11.7%, compared to our current weighted average cost of capital of 8.8%.

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

John Joseph Marchioni
President & COO

Thanks, Dale. Good morning. Third quarter results reflect a success of our underwriting and claim strategies, and the exceptional employees and agents we have executing on those strategies. This marks our 18th consecutive quarter for Commercial Lines pure pricing increases.

We are successfully deploying our underwriting and pricing tools that provide underwriters with specific policy level guidance on an agency portfolio basis, which allows underwriters to target the highest rate increases on the worst performing accounts, while protecting retention on our best accounts.

Year-to-date for Standard Commercial Lines, we obtained 16% pure rate on our lowest quality accounts with a point of renewal retention of 71%. This represents 3% of our Commercial Lines premium. We obtained a 6% pure rate increase on our highest quality accounts, while maintaining a solid 89% point of renewal retention, representing 54% of our Commercial Lines premium.

As previously mentioned, we achieved 7.9% standard commercial renewal pure pricing in the quarter and year-to-date is up to 7.6%, right in line with our projection of 7.6% for the full year. Retention also remains strong at 82% year-to-date.

In addition to rate, we separately measured the impact of underwriting improvements to our combined ratio. Currently, underwriting improvements are well ahead of our expectations in our 3-year plan.

Our Commercial Lines growth is largely a result of the success we’ve had in pricing and a 2% increase in exposure. Standard Commercial Lines new business improved substantially in the third quarter to $75 million, up 33% from depressed levels a year ago. On a year-to-date basis, new business is up 18% to $217 million. Our new business opportunities are coming from the long-term partnerships we have with our superior agency force.

Much of this business is controlled by our agents, meaning they have a very good familiarity with the accounts they are presenting. We run these agent controlled opportunities to our new business models, which makes us very comfortable to quality and pricing of our new business.

While pricing and risk selection on new business remains strong, we have seen an uptick in hit ratios across all 3 segments, small, middle market and large accounts. Our strategy to refocus our field underwriters or AMSs on middle market accounts, while pushing small accounts to a more efficient small business team model is currently paying dividends.

Our diversification across industry segments is very strong and we've reduced our workers' comp writings to 19% of new business in the quarter, sadly below to make up of our Standard Commercial Lines in-force book which is 20% workers' comp.

Year-to-date, our excess and surplus lines contract binding authority business combined ratio was 101.9%. Results are tracking in line with our expectations to achieve between 100%, and 102% combined ratio over 2013.

New E&S business is up 23% over the third quarter of 2012, as we are continuing to see business migrate back in this market. Having largely completed the integration efforts of our E&S operations, we are well positioned to capitalize on the growth opportunities in this segment. Though still early, we are seeing increased momentum in driving business from our retail agency partners to our wholesale agency partners and we expect that to accelerate going forward.

E&S renewal pure price year-to-date is up 6.1% for this predominantly casualty book of business. The same factors influencing the standard market pricing environment are present in the E&S market and we expect this trend to continue.

Improved pricing, combined with our aggressive underwriting actions on targeted segments have us well positioned to produce consistent profitability in the E&S segment going forward.

Underlying personal lines results in the quarter continue to demonstrate improvement, and we are making good progress on our targeted profitability of issues for both homeowners and auto. In the quarter, we achieved an overall 7.5% renewal pure price increase for personal lines while retention remains strong at 86%.

Net premiums written were up 2% in the quarter due to rate increases and total policies in force that were up slightly when compared to September of last year. This increase was partially offset by a shipment business away from New Jersey, which is our state with a highest average premium.

At the same time, new policy counts are down as we had generally seen decline in close rates while we carefully push rates and work to improve our mix of business. Statutory combined ratio year-to-date and personal lines remained a profitable 97.6% compared to 98.4% in the comparable period of 2012 while our ex catastrophe basis, the combined ratio was 89.9%, an improvement from 90.6%.

We continue to drive profitability in our Homeowners line as we increased rate across the book and make underwriting changes including rates and deductibles to increased cost sharing. Additionally, in 2013, we have tightened our underwriting appetite for monoline homeowners.

For the 9 months, our homeowners' line received a statutory combined ratio of 98.4%, including 60.1 points of catastrophes and renewal price increases of 10.4%. For personal auto, we have consistently been getting price increases above loss cost trend, achieving 5.9% year-to-date.

We are increasing the geographic diversification of our auto book and have made progress on increasing the agent book. Operationally, we are very confident in the progress we are making towards our 2014 goals.

Now we'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you, John. Before I give you my perspective on the quarter and market place, I'd like to take this opportunity to congratulate John on his new responsibilities as President and Chief Operating Officer. Board of Directors elevated John to this role as a result of his excellent relationships with our agency for us and his efforts that drive our superior underwriting and claims initiatives towards our 2014 underwriting goal.

Our third quarter results for underwriting combined ratio, renewal price increases, new business growth and retention clearly demonstrate the improvements to our underwriting operations and are moving us towards successful achievement of our goal for a 92% ex-cat statutory combined ratio in 2014.

Renewal fuel price increases are at the high end of our previously announced range and retention has remained strong, an important indicator of market stability. As we just completed our 18th consecutive quarter of renewal pure price increases, we read the commentary about the lack of sustainability for commercial lines renewal price increases that we don't agree while it's clearly not a hard market like the ones in the past.

Commercial lines prices are still firm and ahead of loss cost trends. In addition to loss trend, higher pricing levels must offset the following industry wide trends. Single A corporate bonds for the industry, they are yielding about 350 basis points below where they were 5 years ago and reported calendar year results that are about 4.5 points better than the 2013 accident year results due to ongoing favorable reserve development.

Another benchmark is overall commercial lines growth versus GDP. For the first 6 months of 2013, industry wide commercial lines net premium written group 4.6% while GDP was up about 2%, the net growth 2.6% is clearly not high enough to offset loss trend, lower investment yields and declining favorable development.

With an overall industry ROE from investments projected at 6.3% for 2013, the industry must gain more underwriting discipline in order to achieve the returns on equity or surplus that Wall Street or rating agencies expect. Renewal pure price increases on a lynchpin lowering our combined ratio.

For the 3-year plan has included overall renewal price, the increased expectations of between 5% and 8%. Standard renewal pure price increased 6.3% in 2012 and 7.7% year-to-date 2013 while standard lines retention remains steady at 84%.

We expect overall 2014 renewal pure price increases in the 6% to 7.5% range. We remain encouraged by our growth opportunities as market conditions continue to modestly improve with addition to the benefit of pure price increases, we are gaining traction in our E&S business, expanding our agency force and implementing new products. At the same time, our field employees and small business teams are working together to grow our book.

At year-end 2012, in 18 of our 22 standard lines states, we had market shares below 1%. We had ample opportunity to increase our penetration in the targeted manner as we utilize our sophisticated underwriting tools to write business with the best agents.

Reflecting on the improved results, we are updating our full-year 2013 guidance as follows. In ex-catastrophe statutory combined ratio of approximately 95.5, excluding 2.5 points of catastrophe losses, which is a net improvement of one point from our previous guidance.

No prior year cash redevelopment in the fourth quarter, after tax investment income of between $95 million and $100 million, weighted average shares of approximately $57 million.
Now I'll turn the call over to the operator to your questions.

Question and Answer

Operator

[Operator Instructions] We have a question from Vincent DeAugustino with KBW.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Greg and John, you had this 92% court minor issue target for 2014, when it was issued that looked out pretty far and that's actually been very helpful in framing where you are driving the business, but in some ways its more importantly how you plan on getting there. So now that 2014 is a bit closer and the 92% ex-Cat court and minor issue target is within sight, I am curious if you are planning on going that go-forward another year and also continue to use that figure which has been pretty helpful?

Gregory Edward Murphy
Chairman & CEO

Yes. I would say that of all the carriers out there, I think we have been probably the most transparent in terms of our 3-year plan and the elements of the profit improvement. And we are currently assessing that right now and figuring out how we will update that and what fashion we will roll that out. So I don't have anything for you right now, but we are working on that.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Good. Very much looking forward to that. And John, one of the things you mentioned was the strategy between small commercial and mid-market and how there is benefits of leveraging a straight through processing model on small commercial and just so we can benchmark kind of an ease-of-use for agents, do you have any thoughts on how long it might take a CSR to enter in a data for a quote on a vanilla BOP account? I am just trying to bounce that off of what's -- your commentary has been this quarter?

John Joseph Marchioni
President & COO

Yes. So clearly, I mean, you are hitting out a very board point relative to how companies are perceived in terms of ease of doing business and the ability to go straight through relative to smaller accounts. That is something we have benchmark we bring together our commercial lines, customer service reps and producers from our agent's office to come in and evaluate our system and give us feedback on others. I don't want to sit here and quote actual transaction time, but I would tell you the bigger issue I would say you that we are focused on is the percentage of those accounts that they enter into the system that they actually have the ability to bind on the spot as opposed to the percentage of those accounts that actually headed out of the system due to a underwriting or pricing at it and require manual intervention by an underwriter at Selective. And I think that's, if you were to ask a small commercial producers or personalized producers for that matter and agents office, that's the bigger issue. I think for the most part companies that are focused on small commercial are pretty tightly grouped in terms of the amount of time it would take, it varies obviously if you are talking about a straight BOP or if you are talking about a BOP that's going to have an auto attached to it or whether a umbrella attached to it and or comp account attached to it. I don't determine the amount of time it takes, but it's really more of a focus on what percentage of the business they can actually issue at the end of the process as opposed to waiting to hear back from one of our underwriters to finalize the issuance.

Vincent M. DeAugustino
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Good. That color is helpful. And Dale, just you had mentioned Selective's conservative reserving philosophy and [indiscernible] that the track record in our analysis completely agrees that. And just on a go-forward basis, I am curious that my understanding of the new FASBY draft is correct in the sense that at least on a GAAP basis you won't be able to take that same conservative deterministic approach that you have been doing? And then really the question gets to how should we think about reconciling that methodology versus cash flow results? If your current methodology prevails within stat where in this framework would be actually, would you not have a divergence in that methodology at all? I am just trying to get a sense of how both would look if it actually goes through?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Well, you are trying to get a sense of it and quite frankly so are we and so is every other accountant in the world. It's still early. It's still difficult to tell how does that ultimately get put into play on a practical way, obviously it's clear in the guidance that the old concept of management's best estimate is going by the way side. The problem that I think that they don't fully recognize who's -- there is still a lot of art to the actuarial science in terms of understanding trends and recognizing trends that aren't always completely and clearly decipherable into a mathematical formula. So it's going to be a evolutionary process as we see how that actually hits the road. All I can tell you is that that Selective has always and will remain committed to a strong balance sheet and that's the only thing that we can put out there and I don't think that anybody in the accounting world would ever be against that. So we will implement it to the spirit in the letter of the law but we are also very committed to a strong balance sheet.

Operator

[Operator Instructions] We have a question from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Couple of questions. First related to your flood insurance servicing business, were you impacted all by the government shutdown at the beginning of the month on that business?

Gregory Edward Murphy
Chairman & CEO

No. We were not.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Second question is to the extent that they delay the implementation of the rate increases in the flood insurance business, will that have any impact on you or you really paid based on a kind of a fee per account, it doesn't really matter what the premiums are?

John Joseph Marchioni
President & COO

I -- this is John. I would say the only way that impacts us is when we think about our premium forecast for that line of business, that segment of business going forward, because, clearly, we anticipate the rate levels through as passed by the act or we understand the political pressures that are on there to roll some of that back. So we do get paid a servicing fee relative to premiums and that will be impacted, but again it's more about our planning going forward in terms of how we factor that in.

Gregory Edward Murphy
Chairman & CEO

It's a straight commission rate that we get paid from the Federal Government. So right now, there would be no real change in the operation other than John mentioned in terms of what happens with our expectation in terms of premium growth.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

But it's a percentage of premium, but it's also that percentage is revisited annually. So it's uncertain to what the Federal government may or may not do if the rate increases actually did go through, they would have the option of lowering that percentage but if they did nothing with the percentage clearly then our revenues will go up but so are the commissions that they would pay to agents.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

So I guess, it would seem like paraphrasing those various comments, the status quo would be the status quo if they don't implement the rate increase. If they do implement the increase, possibly there are some upside but that would remain to be seen.

Gregory Edward Murphy
Chairman & CEO

You are correct, characterization margin.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Second question, I hear your comments, Greg, in terms of what the industry needs as far as rate increases and why that would be the right thing for us to do, for the industry to do. But just to play devil's advocate a bit, I mean we have seen time and again that not everybody is as disciplined as Selective as far as continuing to go after the rate that they actually need. When you have your conversations, this is a question maybe for both John and Greg. When you are in conversations with your customers and you are asking them for 10%, 7.9% whatever the answer is, I mean inevitably they are starting to hear from other carriers who are dangling more attractive improvements. I mean, how does that conversion go at this stage? I mean, we are starting to see some inflection where there is a little bit more rate aggressiveness starting to emerge in certain areas and certain companies?

John Joseph Marchioni
President & COO

This is John. I will start and Greg can certainly follow on. There is no question that the longer our rate level continues at this pace, the more difficult some of those conversations become. I will say the way we've approached it from the start, dating back to early 2009 and continue to approach it and will always approach it that way going forward, is to make sure we are very targeted. So the conversion with the customer, there is some underlying review relative to where that account is priced, what the quality of that account is, what the loss experience of that account is and our rate variation between those buckets is fairly significant. So what assumes is, if certain accounts go to market, they are going to realize and in fact, the pricing we are putting out there is still fair relative to the exposure presented. So that I think protected us in a lot of ways from losing our better accounts, because as we said earlier that's where we are at the lower end of our overall rate levels in terms of what we are achieving. But I would say the other thing is the way we have administrated our rate changes and our relationship with our agents that allows us to have a very good conversation relative to the overall portfolio and what we are trying to achieve. But agents are also very open with us about where they really have competition on an account and where they have less competition. So it allows us to flex based on that. But it is clearly an account-by-account negotiation and our view has been for that worst 10 or so percent of our business, we are going to put rate recommendations out there that we are going to stick to and if push comes, the shop are going to lose that account. And on the other side of it, we are going to put rate indications out for our best business and if push comes to show, we will make a decision in certain cases to back off a little bit but again, within the context of our overall rate targets.

Gregory Edward Murphy
Chairman & CEO

And if I could, Mark, there is a little fatigue out there from a consumer standpoint in terms of all the ongoing shopping. And there is this number out there that we constantly hear that trips a wire where people are going to go to market. But I think it gets down to the point that John made in terms of, hey, where we are pushing that hard at high level, we have got convictions to stand behind the account. We have got convictions to stand behind our inside underwriters relative to that. Conversely, you heard our conversations, our comments earlier. There are target rates levels for 2014 between 6% and 7.5%. We are going to be doing that very granularly, so it will be differently apply to how it has to be applied to 80% of our business than the remaining 20%. And then if I could come back to your overarching comment. At a 6.3% investment yield -- 6.3% ROE from the investment portfolio, there is not a lot of places to hide. So the industry has to underwrite a sub-100 combined ratio to have any shot of hitting any kind of reasonable ROE in the 8%, 9% range so. And the industry benefit that we garner is that given our premium leverage of 1.5:1, I mean, for every one point of combined ratio we are generating almost full point of ROE. The industry is just around half of that. So not only do they have the pressure to improve their results, but they have got to drive their combined ratios much lower than we do to generate the equal amount of returns. So there is a little bit of advantage to us in this marketplace and to be frankly I don’t see anything that’s going to change that dynamic for several years. I just don’t see. There is a lot more pressure on pure price increases. You and analysts are putting a lot more heat on companies in terms of where is their renewal pure price, why aren’t you quoting that to me, where is it, what’s your expectations for 2014, what’s your loss trend look like, what the medical part of the loss trend feels like. And then overall, I want to tell you, I mean there has been a fair amount of favorable development that still continues and at some point that well is going to run dry and when it does that’s going to be a big turnaround in industry performance.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Very helpful color. If I can -- probably one other question just kind of in that same thing. In broader terms, what percentage of your customers would you say actively shop their book of business in any given year and does that vary between kind of large, medium and small?

Gregory Edward Murphy
Chairman & CEO

Yes, it’s a great question. It’s one that we talked with our agents about. It’s going to vary agency-by-agency. So we tend to have and as you all know, we have a smaller group of agents. Our view is higher premium volume per agency. Our agents tend to be those that are less sensitive to pricing from a sales prospective. They tend to lead with coverage, they tend to lead with exposure analysis. They tend to lead with service. So our expectation is they generally shop their renewals less than most of other agents do but the other part of your question is more about the consumer end to that and how much are they asking to be shop. I would say it generally happens less on the small commercial side because agents aren't inclined to spend a lot of time and energy requoting that business every year. It’s just not cost effective for them. Whereas you move up the scale on your most sophisticated buyers in the middle market margin account side to have better understanding on their insurance program, may be more likely to come to their agent and say I'd like you the shop me. So it really does vary agency by agency. And Mark, I would say that one of the things that we do measure internally, we get little bit at that and that’s why we measure retention at point of renewal, which is entirely different measurement because that measures every account that our inside underwriters had the opportunity to touch a renewal. That point of renewal retention runs approximately 8 points higher than our regular retention. We quote you retention levels of 82-83, point of renewals are more in the high 80’s or low 90’s and that’s telling you that we renew -- 90% of the business that we had the opportunity to renew, which means 10% would leave for various reasons, obviously a, we put out too higher of a rate relative to that they might have found on other market or they may be actively shopping. So it kind of cuts to a little bit on. That’s why we measure that as -- and then we look at renewals, when we lose those renewals, when we don’t write that business. We’re actively looking at that to find out why we didn’t write those accounts. So I want you to make sure we understand there is something we closely stay on top of.

Operator

Our next question comes from Robert Paun with Sidoti & Company.

Robert Paun

Sidoti & Company, LLC

I want to just follow up on that pricing discussion. In terms of the workers comp business, can you talk about the pricing in that business? How do renewal rates today compare to say what you were seeing about 6 months ago or a year ago?

Gregory Edward Murphy
Chairman & CEO

So for the quarter, workers' comp pricing is pretty much right on target with our overall commercial lines pricing level and on the year-to-date basis slightly higher. I would say generally speaking, what you are seeing in terms of file rate levels from the various bureaus, NCCI and the various rate bureaus is probably down slightly year-on-year for what we saw last year in terms of what they are filing for and in certain cases what they are getting. That does vary by jurisdiction. You have seen some states, with individual rate bureaus or NCCI are now getting higher rate levels filed, but I would say generally speaking 2012 was a higher filed rate level by the bureaus than 2013. And I think you'll continue to see a little bit more pressure on that on a go forward bases in terms of file rates. That's only one component of the rate increase you're getting. You also are able to move around individual schedule models on the account-by-account basis to get rate level, but again get that varies state-to-state. There are some states where you got to early high level of schedules credits on your book and in other states where you have fairly little to move around. But I will say year-on-year the bureau file rate levels are down overall slightly but still relatively high relative to trend.

John Joseph Marchioni
President & COO

I would just say that you won't get -- the calendar year versus accident year results are accomplished trading slightly over 110 -- in the 110-111 range. And as John mentioned, regarding rate around 78, 79 rate increases. So that's not enough to do what we need to. This is the line that's got to highest degree of focus on our claim side for efficiencies and other improvements that are dedicated to really driving better results, better outcomes in that line. And so we know that we're not going to be able to do this all through rate. There is some that has to happen to do different underwriting initiatives, claims initiatives, also remember that we write this as a part of an account that we're on account basis. Underwriter has dealt and John had a mirror comments. So that's where our focuses are on comp. We're very careful with it, but we also are trying to try as much rate in underwriting and points improvement as we possibly can through that line.

Robert Paun
Sidoti & Company, LLC

Okay. And also just second question, can you talk a little bit more about the E&S business. What drove the top line growth in the quarter and may be you can talk about what drove the combined ratio improvement in that business as well.

John Joseph Marchioni
President & COO

Yes. So this is John. Two distinct questions here, I would say on the top line growth side, the predominant driver is -- we are now completely through our integration efforts of those operations and clearly when you go through a significant integration, it is the distraction for the operation. That done is behind us, like we've started to better execute in terms of appointing new wholesales agents in places where we had gaps in our agency plan. And I think we're starting to have more success within the selective footprint of driving business from our retail agency partners to our wholesaler. So new business generally has been a positive in terms of the lift in the overall top line growth in our E&S operations. In terms of the bottom line improvement, there were a couple of segments in a couple of specific geographies that were really driving their performance in that book of business in a negative way, that we aggressively address through price and in certain cases underwriting actions and in other cases specifically targeted actions with a couple of wholesale partnerships. And because of the nature of that business and your ability to take fairly aggressive actions over the short term in terms of pricing and underwriting, we're able to drive that loss ratio down fairly quickly relative to what we are able to do in our standard book of business. And then the final piece is you are getting the benefit of expense improvement year-over-year as well. Now that we're through the integration cost -- the integration cost as well as the premium coming through.

Operator

[Operators Instructions] We have no further questions at this time.

Gregory Edward Murphy
Chairman & CEO

Well, thank you. If you have any follow-up comments, please contact Dale and Jennifer. Thank you very much for participating in the call this morning.

Operator
That does conclude today’s conference. Thank you for participating. You may disconnect at this time.