Selective Insurance Group, Inc. NasdaqGS:SIGI

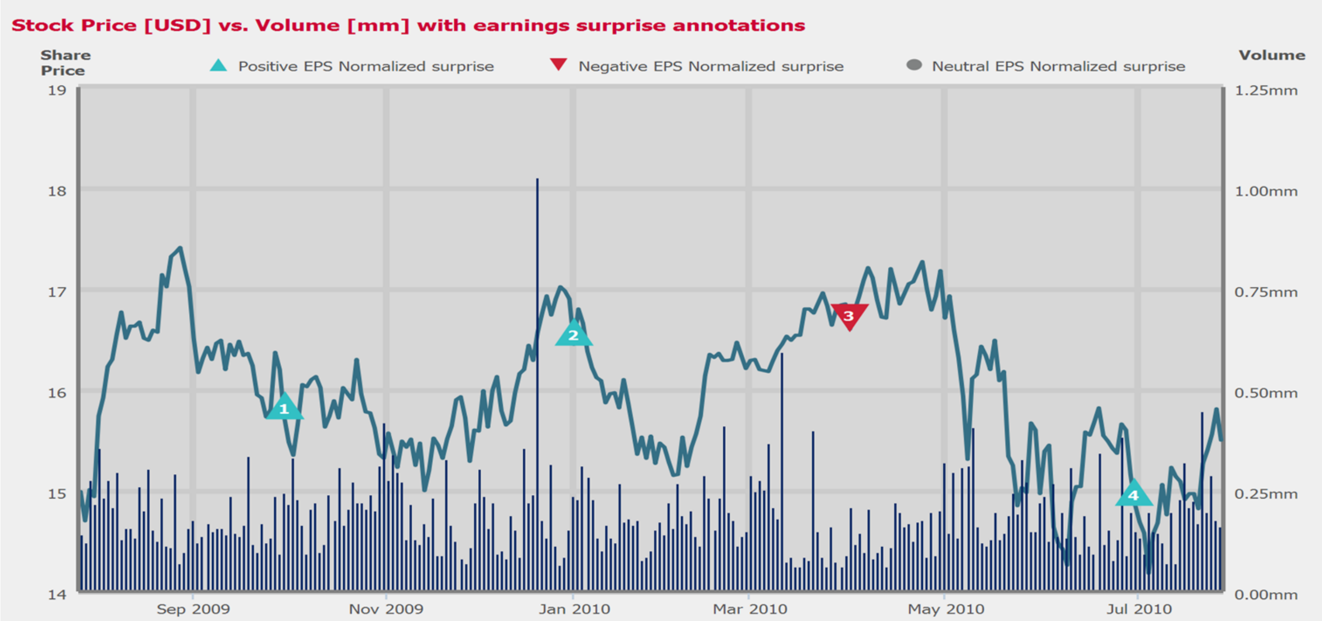
FQ3 2010 Earnings Call Transcripts

Thursday, October 28, 2010 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2010-			-FQ4 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.38	0.35	(7.89 %)	0.40	1.30	1.54
Revenue (mm)	385.97	389.70	0.97	387.69	1522.11	1548.19

Currency: USD
Consensus as of Oct-28-2010 1:29 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2009	0.34	0.44	1 29.41 %
FQ4 2009	0.37	0.47	2 27.03 %
FQ1 2010	0.20	0.12	3 (40.00 %)
FQ2 2010	0.38	0.41	4 7.89 %

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Call Participants

EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer DiBerardino

John Joseph Marchioni
President & COO

ANALYSTS

Bob Farnam
KBW

Caroline Spears
Macquarie

Doug Mewhirter
RBC

John Grostad
Piper Jaffray

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's Third Quarter 2010 Earnings Release Conference Call. At this time, for opening remarks and introduction, I'd like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Ms. Jennifer DiBerardino. You may begin.

Jennifer DiBerardino

Thank you. Good morning, and welcome to Selective Insurance Group's Third Quarter 2010 Conference Call. This call is being simulcast on our website and the replay will be available through November 29th, 2010. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call is available on the Investor's page of our website at www.selective.com.

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

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

Joining me today on the call are the following members of Selective's Executive Management Team: Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, our Chief Actuary. Now I'll turn the call over to Dale to review the quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks, Jen, good morning. It's another competitive quarter in the industry, and improving underwriting results were amassed again this quarter by catastrophe losses totally $12 million. This included $5 million in losses that occurred from prior quarter cats. Including hail damage, which tends to have a longer discovery period.

For the quarter we reported operating income per diluted share of $0.35 as compared to $0.44 a year ago. While earnings were reduced by catastrophe losses and lower investment income, this is partially offset by favorable prior year reserve development due to ongoing positive claim trends.

The third quarter statutory combined ratio was 10.3%, about flat with a year ago. Catastrophe losses accounted for 3.4 points on the quarter's combined ratio, and current year Workers' Compensation deterioration accounted for $10 million or 2.9 points. These were offset by prior year favorable Casualty Lines reserved development of $13 million pretax or 3.7 points.

Commercial Lines growth continues to be a challenge given economic and competitive conditions. Commercial Lines net premium written declined 6% in the quarter, driven mainly by $13 million in return audit and endorsement premium. While this return premium is still significant, there was improvement from the $18 million average return premium we've seen in each of the last six quarters.

We believe that the size of our construction book of business in conjunction with the soft economy is driving this trend.

New Commercial Lines business declined 22% in the quarter, while renewal pure price was up 2.8%. Policy retention held firm at 75% as we continue to push for positive Commercial Lines pure price. Retention is strongest for small business while large and middle-market accounts are seeing the most pressure.

We reported a Commercial Lines statutory combined ratio of 99.8% in the third quarter. Catastrophe losses contributed 2.4 points to this combined ratio. Commercial Property, ex-catastrophe performed very well with a 78.9% statutory combined ratio.

Commercial Auto results also had a good quarter reporting a statutory combined ratio of 88.3%. Commercial Auto results were positively impacted by favorable prior-year development of 14.3 points as a result of lower than anticipated severity, primarily in the 2008 and 2009 accident years.

Similar to the rest of the industry, our Workers' Compensation business continues to show the negative impact of a soft economy. The third quarter statutory combined ratio for this line of business was 130.2%. Workers' Comp continues to be substantially affected by the return audit premiums. The combined ratio also includes about 5 points of adverse prior-year reserve development, related to severity of 2008 and 2009 accident years. And 16.7 points from revised loss expectations for the current accident year. We're seeing severity as a result of the economy and the ability of workers to legitimately extend their medical and indemnity benefits while job prospects remain scarce.

Personal Lines net premium written grew 13% in the quarter to $70 million. The Personal Lines statutory combined ratio for the quarter was a 103.2%, which included 8 points of catastrophe losses. In a more normalized cat environment, personal lines results would be at the sub-100 run rate.

Retention improved 1 point from the third quarter of 2009, even though we continue to drive rates higher.

Third quarter net investment income after tax, decreased 11% to $25 million. This was largely due to the low interest rate environment as new money is being invested at an after-tax yield of only 1.8%. Our weighting through municipals securities has decreased to 43% of the fixed income portfolio at September 30, versus 50% a year ago. While most asset classes produce positive returns in the third quarter, the lower after-tax yield on fixed maturity securities of 2.8% in the quarter to over $2.7 million after tax decrease in fixed income.

In addition, we still hold a higher-than-usual short-term and cash position. Market conditions and availability of high-quality assets provided limited opportunities to find enough fixed income product to put all the cash to work.

Compared to a year ago the unrealized gain position improved $135 million pretax at September 30, 2010, from $51 million at September 30, 2009. Other than temporary impairments, or OTTI, in the quarter, we're recorded at $1.8 million after tax versus $2.8 million in the third quarter of 2009.

Invested assets were up 5% from a year ago to $4 billion. Our overall fixed income portfolio maintains a very high credit quality of Double A, and duration of 3.5 years including short-term, and 3.8 years excluding short-term.

Market-to-carry value on the whole fixed-income portfolio remains strong, and ending the quarter at 105.2%, up from 102.1% a year ago. Our equity exposure was 1.6% of invested assets consistent with last quarter and down from 2.4% in September of '09. Trading activity in the quarter moved the equity portfolio closer to the S&P 500 on a sector basis.

Our $1.5 billion municipal bond portfolio is very high quality with an average Double A rating. In the current environment we continue to prefer high-quality revenue and dedicated tax bonds. We've always been conservative in our municipal bond investing and never relied on the insurance rap to boost the credit quality.

As we transitioned our portfolio to outside managers, they performed a detailed analysis of our municipal bond portfolio, concurred we are sufficiently diversified both geographically and among sectors.

We have allocations across 48 states and the District of Columbia, and Puerto Rico, and we have 465 different securities in the portfolio. While we feel good about the composition of our muni portfolio, we're keeping a watchful eye on the various states; their budget situation and their pension and retirement liabilities. We continually assess our municipal allocation and in light of the current state of municipal finances, and our alternative minimum tax position.

Surplus remains strong at the $1 billion mark at September 30 and stockholder equity increased 9% to $1.1 billion from year-end '09. Our book value remains very strong with minimal intangibles. Book value per share increased to $20.41 from $18.83 at year-end 2009, which is also up 4% sequentially from the second quarter.

Also noteworthy is the fact that the unrecognized gain position in the held-to-maturity portion of the fixed-income portfolio was $67 million pretax or $0.82 per share after tax at quarter end. The dividend yield currently stands at 3% providing a good return while the stock trades at only 86% of book value.

Our capital position is strong with the premium-to-surplus ratio remaining the same as last quarter end at 1.4 to 1, and improved from 1.6 to 1 a year ago. While we view our stock valuation as very attractive, we're maintaining our current levels of operating leverage and capital. Regulators and rating agencies have established a new norm for capital levels, and as a result, we'll maintain any excess capital to facilitate growth in the widely anticipated Commercial Lines market hardening.

Now, I'll turn the call over to John Marchioni to review the insurance operations. </TAG>

John Joseph Marchioni
President & COO

Thanks, Dale, good morning. The Commercial Lines environment remain competitive in the third quarter but we have maintained pricing discipline. This makes the sixth consecutive quarter of positive Commercial Lines renewal price, a substantial achievement.

New business pricing was also up a very strong 4.7% in the third quarter. It's not easy being one of only a handful of carriers raising price in this market. Our agents and employees are doing a great job in a very tough environment. Without the superior relationships that we have with our 980 agents, we would not be as successful in achieving this price.

We continue to closely monitor retention as we execute our pricing strategy. On a point-of-renewal basis, overall policy retention for the quarter was 88%, essentially flat with 2009. Pressure on retention levels remains greatest on a large accounts as competitors are still most aggressive on this end of the market.

The overall mix of our business continues to improve. Policy retention at the point of renewal is strongest on our best performing business. Our best performing business comprising about 58% of our book, retained a 2 points better than average as we achieve rate increases of 1.5%. Our worst performing business comprising about 15% of our book, showed retention levels 6 points below the average as we achieved 8.6% price on this business.

Because of the undisciplined state of the Commercial Lines market, we revised our pricing strategy earlier this year to focus our efforts most aggressively on the worst performing business to achieve profitability, while emphasizing retention for the best performing business.

We recognize that there are still accounts that require more prices, but we feel we are getting what we can, where we can, given the current environment. Working with our agency partners, our field underwriters are writing the majority of our new business in the highest quality 4 and 5 Diamond range. Submission activity from Asian remains strong, but there continues to be pressure on hit ratios.

Commercial Lines new business was down 18% year-to-date compared to 2009. By segment, one-and-done automated small business was 4% to $58 million. Middle-market or AMS generated business was down 24% to $101 million. Selective risk managers, our large account business was down 46% to 9 million.

We continue to make progress in diversifying our Commercial Lines book of business. In the quarter non-contractor new business comprised 72% of Commercial Lines new business up from 68% a year ago. The line of business which is showing the greatest strain is Workers' Compensation. While frequencies have declined 27.4% over the past three years, since our deployment of predictive modeling, severity is up substantially in both medical and indemnity, driven by medical cost inflation, and the soft economy. This is an industry wide issue. We are addressing this situation by diversifying our Commercial Lines book away from contractors, which has impacted the most by economic condition, and raising rates where we can.

We continue to grow the Personal Lines book with new business, up 18% year to date. Retention is also strong at 82%. We are growing due to the rate increases we've been able to achieve, and the diversification of the book outside of New Jersey. Policy count outside of New Jersey is up 23% year-to-date, and we expect this growth to continue.

Last quarter I cited three reasons why we were confident about achieving profitability in Personal Lines. One, our immature book will continue to age, two, we will continue to earn the implemented rate increases, and three, we will continue to get additional rate where possible while continuously refining our model; results are improving.

While catastrophe losses are a part of our business and can't be excluded from results, normalizing for an historical catastrophe load of about 3 points, underlining results are now running a sub 100 combined ratio. Excluding catastrophe losses, we had a 95% combined ratio in the quarter. We're not ready to declare victory, but we're very encouraged by the positive progress we've made.

Pure renewal rate remains strong for personal lines at 6.4% in the quarter and 5% year to date. The market continues to support our Personal Lines rate increases, especially in a homeowners line, where industry wide rates remain below acceptable levels. Now, I'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you, John, and good morning. The Commercial Lines industry faces some significant headwinds due to a low interest rate environment, increasing loss cost, declining top-line premium, and reserve releases that will eventually diminish. In addition, to underwriting and claims improvements, Commercial Lines price increases are necessary in order to achieve combined ratios that generate acceptable ROEs in this declining interest rate environment.

However, Commercial Lines pricing power has not yet emerged. It seems that the Commercial Lines marketplace has adopted an attitude of it is what it is. We don't agree with this, as we've achieved six consecutive quarters of positive renewal price increases. We feel this is quite an achievement given the current market conditions. When pricing power eventually develops, those companies without granular pricing tools on a Commercial Lines basis, will be at a competitive disadvantage. In other words, companies will have great difficulty if they plan to increase prices on a socialized basis. In other words, a specific rate level across the board. Our granular pricing capability should provide us with additional profitable growth opportunities. We plan to grow our network of 980 agency partners to about 1000 over 2011.

In our 22-state footprint, we should have ample opportunity to meet our targeted growth rates. Between now and 2011, we have deployed 10 new Commercial Lines products and expanded our reach across new market segments. By year-end, our un-earned premium reserves should reflect renewal price increases of 3% in Commercial Lines and 5% in Personal Lines.

Throughout out our granular pricing capability, we will continue to develop rate in targeted segments of our business.

In addition, in 2011, we will drive rates higher in both home and automobile lines of insurance. For the 9 months, our statutory combined ratio was 101.4, catastrophe losses were partially offset by favorable loss development as our underwriting results remained within our overall expectations. We are therefore maintaining our statutory combined ratio guidance of 101.5 for 2010.
The weighted average share assumption of 54 million at year-end remains the same. Now I'll turn the call back to the operator for your questions.

Question and Answer

Operator

Thank you. At this time we're ready to begin the question-and-answer session. (Operator Instructions)

Your first question comes from Doug Mewhirter. You may ask your question. Please state company name.

Doug Mewhirter
RBC

Hi. This is Doug Mewhirter from RBC. I just had one question. John or Greg, what do you think of loss-cost trends are running for commercial lines? I mean, I know it's not one - workers' comp and commercial audit. But in general, across your book of business, what do you think loss-cost trends are running?

Gregory Edward Murphy
Chairman & CEO

Yeah. We have - there's two things. First of all, we have an estimated installation on what we do on your loss picks. And I would say on the year-to-date basis in commercial lines it's a little over 3%, right around 3.2. And on a personal lines basis, they're right about 2, 2.1. And then if you're talking about loss-cost specifically, so that's what we build into our trend analysis and our picks and we also look at frequency and severity within our personal lines and commercials lines mix of business and you know, they show something different than that, but that's what we put into our picks.

Doug Mewhirter
RBC

I guess, you mentioned it shows something different, is it personably different or -

Gregory Edward Murphy
Chairman & CEO

Oh, not really.

Doug Mewhirter
RBC

Or is it that important really?

Gregory Edward Murphy
Chairman & CEO

Well, you know, it also shows how claims are actually emerging, so no, it's an important statistic. There's all kinds of statistics that you have to follow. We look at the frequency and severity on a liability basis on commercial lines, that's a little under 3% actually, actually it's right around 2.8. And then on purse lines it's actually favorable, so minus our percent.

Those statistics, I just want to be clear on this, those statistics get pushed around on a quarter-to-quarter basis and that's why we kind of look at what we build in in terms of inflationary aspects into our overall loss pegs and then those are moved methodically over time based on a group of other measures.

Doug Mewhirter
RBC

Okay, great. And actually, I just have one more question. Dale, I keep forgetting this each quarter. Is there any kind of lag built into your alternative investment reporting?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Yeah. Most of them are on a one-quarter lag so that the - I'd say 85% of the performance in any given quarter is really related to the previous quarter's activity.

Gregory Edward Murphy
Chairman & CEO

And Doug, those statistics I quoted for frequency and severity were just within the liability sector of commercial lines and personal lines respectively.

Doug Mewhirter
RBC

Okay, great. Thanks. That's all my questions.

Operator

Thank you. Our next question comes from Caroline Spears. You may ask your question. Please state your company name.

Caroline Spears
Macquarie

Hi. I'm with Macquarie. I'm actually just wondering how much of your investment portfolio is being reinvested over the next one or two years. And then where you're putting that money, into equities and maybe non-fixed income securities look more attractive right now, just given what yield they're doing?

Gregory Edward Murphy
Chairman & CEO

Yeah, I mean, basically you've got a 3 ½ year duration, so you can think of that basically in terms of roughly a seven-year maturity and it's fairly laddered, so basically just for modeling purposes, you can assume that 1/7th would roll of in any given year as far as the existing portfolio, and then obviously you also have to factor in the new cash that gets generated within the operations.

Where we're investing right now is, obviously it's a difficult timeframe in terms of finding rate out there. We're maintaining our discipline in terms of keeping the quality of the portfolio up because of some of the concerns out in the municipal space, with regards to municipal finances and because of where we are with regards to AMT, we're currently investing in the corporate space. So as we indicated in our prepared comments, unfortunately right now the after-tax yield for new money is about 1.8% compared to the portfolio yield of 2.8%, which in and of itself was already somewhat anemic. But that's the interest rate environment we find ourselves in.

Caroline Spears
Macquarie

Okay. So basically there's not any change. You wouldn't get into more equities or non-fixed incomes?

Gregory Edward Murphy
Chairman & CEO

I mean, it's always a possibility. I mean, we've looked at the equities and we will continually evaluate that and make a determination as to whether or not that makes the most sense. Obviously with this kind of yield you have to evaluate that, but by the same token you don't want to overly change the risk profile just to - in a quest for yield. You've got to be comfortable with the risk that you're taking on.

Caroline Spears
Macquarie

Okay. Thank you.

Gregory Edward Murphy
Chairman & CEO

That's something we'll look at.

Caroline Spears
Macquarie

Okay. And then just finally on the underwriting side, I was wondering if you guys are seeing any erosion of terms and conditions, and if so, in what line.

And then if you could just talk about what the biggest differential, what lines are you seeing the biggest differential at between new and renewal business. That's it. Thank you.

John Joseph Marchioni
President & COO

This is John Marchioni. I'll take that. In terms of terms and conditions, we really have not seen anything significant deterioration or from the customers perspective, improvement in terms of conditions. Again, we tend to have a smaller commercial and middle-market focused book of business where you don't really see terms negotiated on an account-by-account basis.

From our perspective that is not moved and we wouldn't anticipate that moving. That's more of a larger account style issue that you'll see develop in these marketplaces and I think you are hearing more of that in a large space. But that doesn't really impact our book.

In terms of pressure on new business and the pricing environment out there, again, you know, we aren't account underwriters, so you know, we tend to look at things holistically and it does tend to be across the board. I would say interestingly, you're finally starting to see a little bit less pressure on comps in terms of new business, although that's very recent. We've been, in fact, seeing the comp market become aggressive over the last year to 18 months in terms of higher commission levels being paid, and some appetite expansion. I think companies have finally started to realize the economic impacts on severity in that line and are starting to back up a little bit there.

When you look at the non-comp lines, I would say holistically it's fairly consistent in terms of the market pressure in business.

Caroline Spears
Macquarie

Okay, great. Thank you.

Gregory Edward Murphy
Chairman & CEO

And then if you just want to look at our pricing by line, it's fairly evenly distributed a little bit heavier weight than our pricing in the GL sector and then comp's actually a little bit on the lower side, not quite 100 basis points on our average pricing and some of that just reflects the more difficulty you have in getting price on the comp line. But it is an area of significant focus for us as we move into 2011.

Caroline Spears
Macquarie

Great. And actually I just thought of something on personal lines. Is there any particular region where you tend to be getting more rate maybe in homeowners? Is it more the Midwest and Northeast because of the cats you've had there, or -

John Joseph Marchioni
President & COO

This is John again. I would definitely say if you looked at our split of rate by region, the Midwestern home line is by far the highest. You know, by a few points higher than average in terms of the home line out there.

We are seeing it pretty consistent across the board in both the auto and home lines, but home in the Midwest is a leader in that regards. The market is bearing that. You're seeing that the industry-wide movement and we would expect as we move forward that that rate continues to drive higher.

Caroline Spears
Macquarie

Okay, great. Thanks.

Operator

Thank you. (Operator Instructions) Our next question comes from Bob Farnam. You may ask your question. Please state your company name.

Bob Farnam
KBW

This is Bob.

John Joseph Marchioni
President & COO

Just add a little clarity to it so you understand me. We've got 25 rate increases over 5% so far. So that tells you that that is fairly well distributed throughout the footprint.

Bob Farnam
KBW

Okay, Bob Farnam, KBW. Going back to the personal lines, basically you're saying that with the normal cat load you're having an underwriting profit now. Can you describe - is that both homeowners and auto? Is that true for both of them, or is one or the other the driver?

Gregory Edward Murphy
Chairman & CEO

Right now our profitability is reached on an overall segment line of business basis. It's also contributed by flood that generates a profit and generally I would say within that level of profitability of about 99 if you were to normalize the cat load for the nine-month period on first line. I would say we're still feeling pressure on the auto sector. That's not profitable. And the home sector would be profitable most likely with that adjustment. So I would say the auto is still a drag on overall performance and an area of significant attention from a price standpoint. And then from the home standpoint, like John mentioned, we are getting rate increases across the board and that, we feel, is the most efficient way to improve that book of business at this particular point in time.

Bob Farnam
KBW

All right. Okay. And moving over to workers' comp, are there specific states that are driving more of the issues? You know, are they doing worse than other states?

Gregory Edward Murphy
Chairman & CEO

I would say it's fairly much across the board. The pressure is, you know, coming from utilization on the medical side. I think it's an extension of medical, be that drugs or any other part of medical utilization to keep indemnity payments out there. I think it's just - that's - some of that is a reflection of the very soft economic conditions overall, but also I think you know, in our comp book, we have seen years of severity and that's just something we have closely watched and they do run, you know, just within, on a kind of random basis within the profile.

So some of that is just randomness, but some of it's also very economic driven. And then as Dale mentioned, there's huge pressure on return premium in that line. In some cases there's some reclassification of payroll that happens as a result of the soft economic conditions and every part of this is our focus going forward.

Bob Farnam
KBW

All right. And it sounds like your return premium was getting better, it's still negative though. Do you see that turning anytime soon?

Gregory Edward Murphy
Chairman & CEO

Well, that certainly, you know, it's been running for the last, let's say through June it was running about $18 million a quarter and that's not relative to just comp, that was in aggregate and that's the main two lines that that impacts. So it's workers' comp and general liability. And then we saw that in the third quarter of this year, that number went about 13 million.

So we have seen that number improve by 5 million, although it's still negative, it's an improvement. I would say that that's higher than our expectation, but it is starting to moderate.

Bob Farnam
KBW

Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from John Grostad [ph]. You may ask your question. Please state your company name.

John Grostad
Piper Jaffray

Good morning; Piper Jaffray. I was wondering if you all could give us a little bit more color on your perspective on workers' comp severity trends going forward. I know we talked about it a bit, but just for the remainder of the year, and then into 2011. Do you expect it to continue from the severity standpoint or just a little bit of color on how you're thinking about that?

Gregory Edward Murphy
Chairman & CEO

Well that's a difficult question to prognosticate in terms of what happens in 2011. I mean, I'll let other folks comment, but I think to the extent that there's an element of randomness in terms of severe claims that happen on a [inaudible] basis, that's a very difficult thing to sit there and extract that from the book. I would say that, you know, from our standpoint we have, you know, putting together a very aggressive, you know, in terms of utilization and compatibility and other factors that should improve our results overall. But I would say that soft economic conditions do create an overhang in both medical - in the medical aspect and then also on the indemnity side.

I think that's, you know -

John Joseph Marchioni
President & COO

You know that's - this is John. I think Greg's right. If you're looking for indicators, you know, we've talked about the fact that medical inflation and the economic conditions relative to unemployment are tracking with what we're seeing in terms of severity. So if you want to look for indicators, I'd look at how those two things track as you move forward and assume that they'll impact the book. You know, the way they are right now until they start to move in a different direction.

John Grostad
Piper Jaffray

Okay. Thank you.

John Joseph Marchioni
President & COO

And I would say these are things that don't appear to be unique to us. They appear to be industry wide and then I think it depends on how companies are responding to that, you know, how companies respond to the level of activity. You know, we do - Dale's talked to you many times about this, every quarter we do a deep analysis. We have a very integrated planning process. So we have a tendency to respond to this fairly quickly and we've already moved our current year loss ration pick on our comp book up to 70. That came through all in this quarter. So it went from approximately 62 - 61 up to 70 in the quarter on the comp pick. So that number came through all in this quarter.

So when you look at our quarterly performance, and I hope this came out through the comments that we made earlier, you've got kind of normalize that over the year. And so it does have an impact on our earnings for the quarter of about - right around $0.06, somewhere in that neighborhood. And then obviously it has, you know, you have to normalize its effect on the combined ratio because you have to put some of that back theoretically into the first quarter and second quarter that you want to look at how we currently view the 2010 actions in a year.

Gregory Edward Murphy
Chairman & CEO

Just to give a little bit more detail, pulling it out of the prepared comments before, so you've got 16.7 points on that one 130 combined are related to an increase in the current year action picks. So if you just take the straight average, you could assume that about ten of those points relate to the first and second quarter.

John Grostad
Piper Jaffray

Great. Thank for the color on that. Also, switching gears a bit, in terms of frequency trends in the commercial lines outside of workers' Comp, what are you all seeing with regard to that?

Gregory Edward Murphy
Chairman & CEO

Frequency is -- general liability is down. We look at this on a fiscal year basis, so frequency, and this is on earned policy comps versus GLs down, commercial auto liability is down, BOP liability is down, and we have a tendency to drill more on the liability lines than what's necessarily on the property lines. But those are, you know the bigger lines right there that drive the book of business, that's GSL, it's commercial auto and it's comp as we've already discussed. And then BOP has a smaller relative size wise on that overall.

But all of those trends were, on the frequency side, favorable.

John Grostad
Piper Jaffray

And I guess along with that, no signs that would lead you all to expect an uptick going into the 2011?

Gregory Edward Murphy
Chairman & CEO

Well, that's a little more difficult to prognosticate. Frequency trends have been favorable for a while and you would expect at some point you'd see that, you know converge more towards the mean and actually maybe start to move higher as you go forward. You know, I would want anybody to think that - if everybody's prognosticating out there, that the market's not firm and they're not going to increase price, and they think that frequency is going to go down, why don't they just throw a severity drop on top of that, you know.

It’s just not, you know, that’s just not practical if you’re going to view it for the long term in terms of where you’re pricing needs to be. And these numbers do get pushed around a fair amount and I think you need to look at it in that light, that there’s a fair amount of volitility in these numbers and when you start looking at where you sit in your current year, what your next year is going to look like in terms of, you know, where you’re pegs are going to be, you know, you have to look at these with a certain amount of convergence towards the mean and you can’t just go on an outlier.

John Grostad
Piper Jaffray

Fair enough. Thanks a lot for your response.

Gregory Edward Murphy
Chairman & CEO

So there’s nothing other than 30 years of experience that tells us that at some point it’s got to - it can’t just keep going down.

Operator
Thank you. (Operator Instructions).