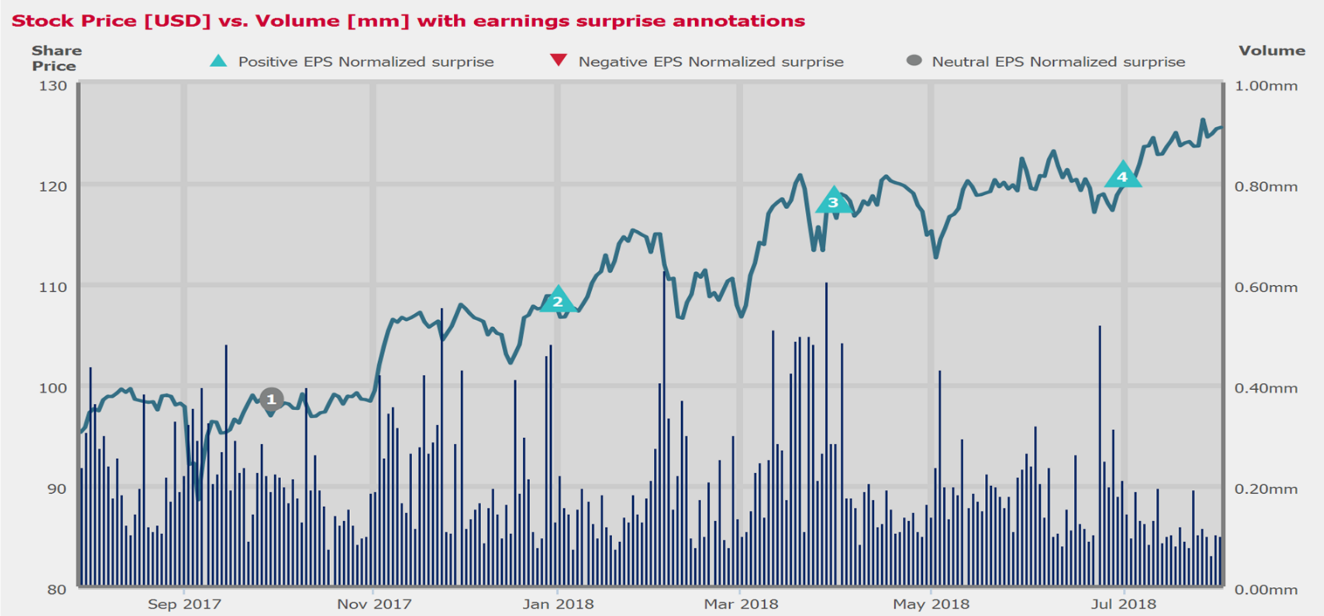
S&P Global
Market Intelligence

The Hanover Insurance Group, Inc.
NYSE:THG
FQ3 2018 Earnings Call Transcripts
Thursday, November 01, 2018 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	1.84	1.97	6.49	2.05	7.27	-
Revenue (mm)	1182.70	1177.20	(0.46 %)	1034.10	4376.60	5255.69

Currency: USD
Consensus as of Nov-01-2018 10:32 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	(0.63)	0.11	NM
FQ4 2017	1.85	2.00	8.11 %
FQ1 2018	1.67	1.95	16.77 %
FQ2 2018	2.07	2.20	6.28 %

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Presentation

Operator

Good day and welcome to The Hanover Insurance Group's third quarter earnings conference call. My name is Nicole, and I'll be your operator for today's call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, operator. Good morning, and thank you for joining us for our third quarter conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and our Chief Financial Officer, Jeff Farber. 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 supplements 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, including our guidance for 2018. There are certain factors that could 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, Slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures, such as operating income and accident year loss and combined ratios, excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier. As a reminder, we are reporting operating results for our domestic business only. Given our plans to sell Chaucer to China Re, Chaucer's results have been reclassified to discontinued operations for all periods presented.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone. Thank you for joining our call. This morning, I will review the highlights of the quarter, results at a segment level and provide an update on several key strategic initiatives. Jeff will review our financials in detail, and then we'll open the line for questions.

During the quarter, we further strengthened our market position, capitalizing on our clear strategic focus, distinctive business model and strong relationships with a select group of independent agents. At the same time, our talented and committed team continued to create sustainable value for our shareholders, partners and customers.

Today, we are more confident than ever that we are achieving our goal to be recognized as the premier property and casualty company in the independent agency channel. We are concentrating our efforts on our target market sectors, those in which we believe we can generate more attractive growth and profitability. We are excited to build on our momentum and further develop our relevancy and market share with the top agents and brokers in the U.S.

Overall, we are satisfied with our financial performance during the quarter and pleased with the execution on our strategic priorities. For the quarter, we posted operating income of $84.9 million or $1.97 per fully diluted share, a combined ratio of 95.1%, a combined ratio excluding catastrophes of 90.9%, and an operating ROE adjusted for Chaucer equity of 14.1% for the quarter and 13.1% year-to-date.

Our third quarter results include several noteworthy items. First, this has been an active catastrophe season, with 19 declared catastrophe events, several of them very significant, including Hurricane Florence. In light of this activity, our book performed well, generating a catastrophe ratio for the period of 4.2%. This underscores the benefit of continued coastal risk exposure management, consistent underwriting practices and our thoughtful approach to flood coverages.

Second, we delivered strong top line performance. Growth in the quarter of 5.2% was generated largely from our target sectors, including Small Commercial and Personal Lines account business, where we are generating strong returns. Additionally, our specialty commercial lines businesses continue to grow nicely, as we focused on niche markets with prospects for more attractive returns.

Third, we made significant progress on our strategic priorities, investing in our businesses, broadening our specialty capabilities and delivering a relevant portfolio offering to our agents and customers. Importantly, we are making these investments while maintaining our expense rigor and reallocating resources to more critical strategic opportunities.

Finally, we maintained a strong overall level of reserves in the quarter. We expect variability by line, both positive and negative, as losses mature. We have committed to react to small anomalies quickly and to remain on top of emerging trends. The unfavorable development in our Commercial Auto line, for example, was disappointing and has our full attention. We are confident that we have the underwriting rigor, analytical expertise and market position to effectively manage this industry issue.

Moving on to highlights by business, starting with Personal Lines. We delivered a quarterly ex-cat accident year combined ratio of 87.9%, which was a couple of points higher than the same period in 2017. The increase during the third quarter of this year was driven by homeowners' property variability, in part driven by non-cat weather and the comparison to lower-than-usual losses in the third quarter of 2017.

Importantly, our year-to-date results are tracking in line with 2017, and consistent with our original expectations for the year. Personal Lines growth during the quarter was strong at 6.7%, due largely to rate increases of 4.5% and solid retention at 84.0%.

We continue to increase our presence in our target markets, focusing on account business, which provides higher customer lifetime value and superior returns. 86% of the new business we write is account business.

Our Hanover Platinum account product, which now makes up 42% of our overall business, continues to be well-received by our partners and customers, driving a considerable share of new business.

Overall, we are pleased with the operating progress made year-to-date in Personal Lines, and we are satisfied with its financial performance as a very strong contributor to our bottom line.

In Commercial Lines, we've produced solid underwriting results as well, delivering targeted growth as we continue to emphasize profit margins over top line growth. We generated an ex-cat accident year combined ratio of 92.8% during the quarter, 1 point higher than the third quarter of 2017, driven primarily by property variability in the quarter and the increase in our Commercial Auto loss picks.

Similar to Personal Lines, on a year-to-date basis, our Commercial Lines loss ratio continues to track consistently with our 2017 results. Our Commercial Lines business increased net written premium by 4.3% in the quarter as we continue to benefit from strong retention and price increases. We are particularly pleased with the growth we are seeing in our flagship Small Commercial book and in our target middle market industries, where we have additional profitable growth opportunities.

During the quarter, we increased core commercial pricing by 5.2%, slightly above second quarter 2018 levels. We continued to achieve price increases of upper single digits in our Commercial Auto line. There clearly is support for additional rate increases in this line, a hopeful sign that the market is responding rationally to industry underwriting challenges and elevated loss cost trends.

We also continued to see competitive pricing pressures in our workers' compensation line. We are carefully watching for signs of increased frequency from the strong economy, and we are ready to react accordingly. Despite the current pricing environment, this line remains very profitable, and we are happy with the progress to date. Our conservative risk appetite, account size and industry selection served us well.

We also consistently apply granular pricing segmentation in our commercial book of business. We are retaining and applying lower rates to business with higher-profitability characteristics, and we are charging higher rates and actively shedding undesirable business. In addition to overall rate increases, the cumulative impact of pricing segmentation and mix improvement initiatives is expected to help mitigate the impact of long-term loss trends.

Our domestic specialty business delivered strong results in the quarter and grew at 6%. We experienced high single-digit growth in our strongest performing segments, including professional and health care lines. We are very pleased with the improvements in our specialty portfolio over the last couple of years, and we are satisfied with the fixed expense leverage we are achieving as we grow.

As we step back and assess the overall market conditions, we see very attractive opportunities in the current market environment, leveraging our strong agency relationships and our deep understanding of our customers' and agents' needs.

One of our strengths is the ability to provide a full product suite to meet the needs of our customers and agents. With this as a backdrop, we fully expect our Specialty business to continue to contribute to our overall growth and earnings momentum in a meaningful way.

As part of our planning process, we regularly evaluate our strategic progress and the effectiveness of our current initiatives, adjusting our priorities and identifying new opportunities for growth. We also received some great input and continued support from some of the best agents in the country during the recent CIAB conference in Colorado. Our partners are excited about our agility and ability to navigate a very dynamic environment, while strengthening our joint relevance in the marketplace.

The feedback we received further strengthened our conviction that our strategic direction is the right one. We leverage our unique value proposition, our distinct distribution strategy, investments in specialty capabilities and innovation to position our company for additional profitable growth.

We have made significant progress in enhancing our product offering since we last spoke. For example, in Specialty Commercial Lines, we continue to advance key strategic initiatives during the quarter, expanding our niche product offerings and strengthening our teams, providing our partners with enhanced specialty capabilities. We hired new heads of cyber and financial institutions to help us further strengthen our focus in these important and attractive industry segments. This added expertise will enable us to further support our agents' and customers' needs.

In Personal Lines, we continue to round out our broad product offering, launching a new SafeTeen program. The program offers telematics and online coaching to help keep new drivers safe on the road. Additionally, the program complements our account strategy, enabling us to meet the needs of our customers in the many stages of their life cycle.

We also continued the rollout of our new agency quoting and service platform, most recently in Massachusetts. Our agents have given us high marks on this new system, in particular on its ease of use and effectiveness. We will continue this important rollout across the rest of our Personal Lines markets for completion by mid-2019.

Overall, we are satisfied with the profitable growth momentum and the operating efficiencies in our domestic business. We also are very happy with the strategic progress we have made during the quarter, further differentiating our capabilities for our agents and customers.

Before turning it to Jeff, I will provide you with a brief update on the Chaucer sale process. Since our announcement in September, the process has proceeded according to plan. All regulatory applications have been submitted and are currently under review. China Re shareholders have voted in favor of the sale, an expected but important milestone in the process. We continue to expect the deal to close at the end of this year or in the first quarter of 2019.

With those comments, I will turn the call over to Jeff for a review of the financial results.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the quarter, we reported net income of just over $100 million or $2.33 per diluted share, compared to $11.1 million or $0.26 per diluted share in 2017. After-tax operating income was $84.9 million or $1.97 per diluted share, compared to $52 million or $1.21 per diluted share in the prior year quarter. The operating income for the third quarter included a one-time tax benefit of $4.3 million or $0.10 per diluted share related to a pension plan contribution we made during the quarter, benefiting from a 35% tax deduction.

The gap between net income and after-tax operating income is driven by the net increase in fair value of equity securities of $23.6 million or $0.54 per fully diluted share. Discontinued operations, which includes Chaucer's operations and deal-related costs, had a net loss after tax of $3.6 million. Chaucer's segment income before taxes of $3.8 million for the quarter was more than offset by transaction-related expenses of approximately $7 million.

Our continuing operations posted a combined ratio of 95.1%, down from the 97.1% in the prior year quarter, due to a more normal catastrophe experience, partially offset by variability in the current accident year loss ratio, which I will discuss in the segment details.

Overall, catastrophes during the quarter totaled $44.9 million or 4.2% of earned premium, slightly favorable to our cat budget. The largest driver of cat losses was Hurricane Florence in North Carolina and Virginia, which accounted for approximately $13 million or 30% of Q3 cat losses.

Excluding catastrophes, we reported a combined ratio of 90.9%, an increase of 1.5 points from the prior year quarter, driven by an increase in current accident year losses, while expenses remained in line with 2017. Prior year development was 0 overall, with some pluses and minuses by line.

I will now review our underwriting results by business. Our Personal Lines combined ratio, excluding catastrophes, was 89.9%, up from the 85.5% posted last year. The increase was driven by unfavorable prior year development as well as an increase in current accident year losses when compared to 2017 results. The unfavorable prior year development in Personal Lines was $8.5 million or 2 points of the quarterly combined ratio. This is primarily attributable to a small number of unusual large losses from accident year 2016, affecting homeowners and umbrella lines.

In personal auto, we increased reserves in response to continued higher severity from bodily injury claims, primarily in accident year 2016. The combination of strong rate increases, lower frequency and higher loss picks, gave us confidence in the current accident year.

Our Personal Lines accident year loss ratio, excluding catastrophes, increased by 1.9 points to 59.9%. In Homeowners, the ratio was 47.1%, an increase of 4.6 points from the third quarter of 2017. This increase was due primarily to property variability, including elevated non-catastrophe weather-related losses as well as unfavorable comparison to an unusually low level of non-cat losses in the third quarter of 2017.

Importantly, on a year-to-date basis, our homeowners loss ratio of 46.8% is fundamentally in line with both prior year and our expectations. In personal auto, the accident year loss ratio, excluding catastrophes, was 67.9%, relatively consistent with the prior year period. Overall, our Personal Lines book continues to perform well, driven by our full account offering and agency relationships.

Moving to Commercial Lines. We reported a combined ratio, excluding catastrophes, of 91.5%, compared to 91.8% in the prior year quarter. This improvement was driven by favorable prior year development in the quarter, partially offset by some increased losses in the current accident year quarterly results. The Commercial Lines' favorable development was $8.5 million or 1.3%, which was primarily driven by reserve releases in workers' comp and our general and professional liability lines, partially offset by reserve additions in Commercial Auto.

In Commercial Auto, we have been closely monitoring the industry-wide loss trends, particularly bodily injury, and are focused on the level of severity that we've seen in the results. The magnitude of rising medical costs and attorney involvement has been higher than anticipated. We, therefore, felt it was necessary to further strengthen our reserves in this line. Also, in response to the prior year loss emergence, we prudently increased our 2018 loss selection meaningfully in the current quarter. Our Commercial Lines' current accident year loss ratio, excluding catastrophes, increased 1.4 points to 58.2%. The results were driven primarily by the commercial auto adjustments and some large property loss experienced in CMP.

Our CMP current accident year loss ratio ex cat of 56.3% increased 3.9 points from the prior year quarter. This is primarily due to inherent variability in large property losses as well as a lower-than-usual level of non-catastrophe losses in the third quarter of 2017. We don't believe this is a trend and are satisfied with the line's performance year-to-date.

Looking at workers' compensation. We posted an accident year loss ratio ex cat of 62.4%, right in line with our expectations. Other Commercial Lines delivered a current accident year loss ratio ex cat of 52.5%, a 3 point improvement from 2017, which included elevated activity in the prior year quarter. We are also seeing the benefit of past and ongoing underwriting actions across multiple lines.

Overall, we are satisfied with our underwriting results during the quarter with continued solid growth and expense improvement. We recognize the inherent variability of property losses quarter-to-quarter, which tend to normalize over the course of a full year. Although we are focused on improving results in commercial auto, the majority of our auto portfolio is written as part of a package, which delivers, as a whole, solid returns.

On to our investment performance. Net investment income increased by 6.1% in the quarter to $66.4 million, aided by higher cash flows from operations.

Cash and invested assets were $7.4 billion at the end of the quarter, with fixed income securities and cash representing 84% of the total. Our domestic fixed maturity investment portfolio had a duration of 4.7 years and was 95% investment-grade. The conservative portfolio remained high quality with a weighted average of A+ and is well-laddered and diversified. The operating effective tax rate for the quarter was 15%, primarily reflecting the one-time benefit of pension plan funding that occurred in the third quarter. We anticipate that the effective tax rate going forward will roughly equal the statutory rate of 21%.

Moving on to equity and the strength of our capital position. During the quarter, book value per share increased 1.8% to $70.40. The increase was primarily due to earnings in the period, partially offset by dividend payments and changes in the fair value of the fixed income portfolio from interest rate movements. All in, our operating return on equity was 11.2%. After taking into account the equity attributable to Chaucer by removing approximately $600 million from the equity denominator, adjusted operating return on equity for the quarter was 14.1%. Due to the lower cat losses and the tax benefit in the quarter, we believe our year-to-date adjusted operating ROE of 13.1% is more indicative of the current earnings power of our business.

From a capital management perspective, we returned $18.9 million to shareholders through stock repurchases in the quarter. We have a total of $102 million available for purchase under our current share buyback authorization. We also returned $23 million of capital through our regular quarterly dividend during the quarter.

As for Chaucer, its results were impacted by high catastrophe losses, including activity from 3 typhoon events, Hurricane Florence and other global events. Current accident year catastrophe losses amounted to $34.5 million or 16% in the quarter, which brings the year-to-date balance to $53.2 million or approximately 8% of earned premium.

Following up on Jack's update of the sale process, I would also like to share that our view of sale proceeds continues to be an active focus for the company. We will use the capital management framework that we have previously outlined once the transaction is closed. Upon closing of the transaction, we will provide you with a specific, detailed deployment plan for the proceeds.

With 3 quarters of the year behind us, we are confident that we can deliver on our original full year 2018 guidance. Our domestic cat load for the fourth quarter is 3.6%.
With that, we will now open the line for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Christopher Campbell of KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

I guess, kind of just first question is on the adverse real development. So personal auto has been adverse the last 4 quarters. Same thing with commercial auto, except the numbers are kind of growing quarter by quarter. I know you raised the commercial auto current year loss picks. But do you need to raise the personal auto one as well?

John Conner Roche
President, CEO & Director

Yes, Chris, this is Jack. Thanks for the question. As we've committed, really, over the last several quarters, we are determined to stay on top of line of business trends and to make sure that we address things along the way. So consistent with that, we have been on top of some anomalies and some small trends within Personal Lines that we've made some adjustments to. We've also looked at the overall profitability of the business and still feel terrific about the business. But to your question, as we look forward into '18, we think the combination of the pricing that we've taken and the continued positive trends in our account strategy and overall book management that we feel quite confident about the current picks in our Personal Lines business. In commercial, we obviously came to a slightly different conclusion. The industry continues to show some elevated loss trend. We've continued to see some severity of the severity for many of the reasons we described in the past but essentially, loss trend is a notch higher than even we were projecting. So we decided to make not only an adjustment in the prior development but also to update the full year accident pick. And that's the conclusion we came to.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Right. That's very helpful. And just looking at the core losses overall, they were about 160 bps higher year-over-year. Now I know a lot of that is non-cat weather, so I guess -- and that's like ex Chaucer, so how much of that was attributable of that increase was non-cat versus just what you're seeing attritionally from things like raising the Commercial Auto loss pick?

John Conner Roche
President, CEO & Director

Yes. I mean, I think, we've outlined in our results kind of where we made some adjustments in our picks versus had some variability in property losses and some other areas. So I don't know if you're speaking to a specific sector or just overall.

Jeffrey Mark Farber
Executive VP & CFO

Yes. I think, Chris, overall, if you were to look at the elevation from our expectation in the current quarter, about half of it is related to the Commercial Auto pick, and the rest of it are the non-cat weather and attritional losses increase there. In addition, we also had a particularly low property loss quarter in the third quarter of 2017. So on a comparative basis, you have that sort of hurting the comparability.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. So it's really not 160 bps, right? So it's like 80 bps essentially with the Commercial Auto, and then you kind of had like a favorable quarter last year. Yes, I got it.

Jeffrey Mark Farber
Executive VP & CFO

Yes. And when you bring that -- Chris, when you bring that pull forward, too, that's why we made references to our full year projections, right? We think that, obviously, we still feel like we're really kind of right on our original view of the full year picture.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then, just, I guess, a few questions on Chaucer. I know it's in -- discontinued. But are there any expense dis-synergies that you guys get from getting that off the book, things like reinsurance, et cetera? And then, just also kind of a follow-up on that. Is that -- I know you guys have the $45 million catastrophe contingent part of the sale proceeds. So I guess, how much of that -- and you're still below it at 820 bps versus the 10%. So I guess, how much more losses could you take before that would be at risk? Is there any reinsurance that you've bought to kind of protect that? And then, what are Chaucer's estimated micro losses?

Jeffrey Mark Farber
Executive VP & CFO

Okay. Chris, this is Jeff. So first, on the potential dis-synergies. There really aren't meaningful dis-synergies. As you know, we had struggled to find synergies, and we had largely left the Chaucer business separate from the Hanover business. So that really doesn't become an issue. With respect to reinsurance, those programs were bought separately. We had looked at it a couple of times, as you know but the way those programs are structured, it didn't necessarily make sense to combine them, so we kept those separate. So I don't think we'll see dis-synergies either from an expense structure or from reinsurance. Moving to the contingent consideration, we had $86 million as sort of the hurdle, if you will, which was the 10% of net earned premium. Through the end of the third quarter, we had $53 million of cat, so that leaves $33 million. Obviously, there's Michael, but even after Michael, there will be plenty of room after that. We did opportunistically put on some reinsurance for Chaucer cats for the remainder of the year. And we put that on at an attractive cost to protect a meaningful portion of the contingent consideration. There are some differences between what we put on in terms of attachment points, the amount of cover and the definition of a cat versus a natural cat but we feel pretty comfortable with what's left and the meaningful portion of the contingent consideration that we've reinsured.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Now just one final one. Shares have been kind of weaker since the Chaucer announcement. So I'm trying to think -- it will be some time before you guys decide what the proceeds will be. And you did kind of buy back more shares this quarter than we thought, especially in kind of a typically higher cat quarter. So I guess, how much excess capital do you have currently? And then, how much could you theoretically buy back? Because you were buying back at $119 per share. It's at $107 now. So presumably, buybacks are even more attractive than they were this quarter at current levels.

Jeffrey Mark Farber
Executive VP & CFO

So we gave an estimate on the last call, which was the announcement of the Chaucer sale. And the estimate we gave upon a close of Chaucer was that the excess deployable capital was $825 million to $875 million. So that seems to be still a good estimate for excess deployable capital. With respect to how much stock could we buy back, that -- your analysis is probably just as good as ours. Obviously, we've been doing that work and thinking about it. Clearly, one couldn't go into the market and buy $850 million of stock back at the current price without substantially moving the market or doing a Dutch auction or something there. But I think you can probably estimate that as well. It will take some time to deploy all of that. And that's why we're committed to using a portfolio approach of capital management and capital deployment techniques. And we've outlined those on the last call. So you should think about more than one particular technique.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And then, just before pre -- like pre-Chaucer closing, like how much excess capital do you have now? And then, how much could you buy back before you get to that post-Chaucer period?

Jeffrey Mark Farber
Executive VP & CFO

We haven't really shared that with you. And obviously, we could do that if we chose to. But upon it closing, we'll announce that. But I think you should think about it as business as usual until it closing.

John Conner Roche
President, CEO & Director

Thanks, Chris. And again, just a quick follow-up to Jeff's comments. I think, we've been very clear along the way that upon closing, we do have a lot of work that we put forth and intend to be very clear about immediate capital management actions as well as what we can do over time that would be in the best interest of shareholders.

Operator

[Operator Instructions] Our next question comes from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I was hoping you could kind of walk through your Commercial and your Personal Lines business and talk to us about kind of how you feel about where you are from a rate versus claim cost inflation perspective as well as where you are from sort of a -- I know it's hard to figure out in Commercial but sort of policy in force version of growth versus stuff that's coming through because of rate or even mix change?

Jeffrey Mark Farber
Executive VP & CFO

Sure. Paul, this is Jeff. Thanks for the question. I'll kind of give you some high-level thoughts, and then Dick Lavey can give you some additional commentary. I think, overall, what we've said in the past about Commercial Lines is still true. And as you see, there's some moving parts that are going on. We continue to have, I think, overall, pretty good industry pricing based on our portfolio and our strategy. I think we're delivering slightly above market pricing overall. That said, we still think we're a touch below loss trend, particularly as our view of commercial auto loss trend ticks up a little bit. So we made a little bit of progress in pricing. I think the environment has been reasonably stable but the denominator moved a little bit, in our opinion. On the Personal Lines side, I think we have been slightly ahead of loss trend with our pricing. We've been pushing rate in all the states that we feel like we need to keep ahead of that loss trend. And so that may have kind of come together a little bit in the last couple of quarters but I think we still feel like we're slightly ahead on pricing to loss trend in the Personal Lines business.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. I think, Jack hit the headlines on that. In Personal Lines, we do believe in both home and auto we're slightly ahead of loss trend, and we're watching that carefully. In Commercial, we're getting positive rate in all lines but workers' comp. And we know the story there. So we're -- we feel good that we can continue to see improvement by managing pricing segmentation and underwriting actions where we're not ahead of loss trend, but our uptick in new money this quarter showcases that we're sort of artfully working through and getting price on the right kinds of accounts. From a PIF perspective, we're seeing PIF growth in Personal Lines of 3.3% in the quarter. So that feels good as we drive out our point-of-sale application, and we're seeing underlying momentum at the desk level with our account managers. This -- a good portion, of course, of our growth is on the back of strong retention. So we've got strong retentions in the mid-80s, 84% in Personal Lines this quarter, and strong pricing in Personal Lines, 4.5%. In Commercial, same. We have strong retention. In Small Commercial, our retentions are close to 86%. And our PIF growth is strong there. We do -- similar to Personal Lines, we feel really good about the underlying momentum at the desk level, which means our submissions, all of our submissions are up and our overall -- our submissions are up and our overall yield rates. And just to make a point on the commercial auto rate, we're seeing -- we're pushing ourselves hardest on that line, as Jack commented earlier, about what we need to do on the line, aggressively pushing upwards of 8% of rate. And we believe that the market can -- will absorb that and potentially more. So we're being really thoughtful about what our future pricing strategy is for commercial auto line.

John Conner Roche
President, CEO & Director

Yes, and I would just include with that also, that my comment about our view of commercial auto loss trend ticking up prompted us to immediately go back to the dials on commercial auto across small commercial and middle market and to meaningfully push forward across the segmentation tiers and pricing. So don't mistake my comments around trend moving up. We made meaningful adjustments on the pricing side to be commensurate with that.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

That's great. My next question, the -- a follow-up to Chris' asking about capital management. I'm sure you have a plan but can you talk about sort of the communication of that? Do you plan to tell investors right after the close? Do you think it's something you need to be discussing next time you report earnings after the close? Or have you thought about the messaging and the timing of the message?

John Conner Roche
President, CEO & Director

Paul, as soon as we had a close, we would have a call and announce the close of the Chaucer sale. And our expectation is, on that call, to be announcing the plan and some specific actions to deal with the capital.

Operator

[Operator Instructions] Our next question comes from Matthew Carletti of JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple of questions. One, just following up on the commercial auto, just as I read kind of the description in the press release of both kind of the adverse development and the movement in the accident year, just to confirm, they're very much linked. It seems like the older years are where you saw kind of the changes in trend and that kind of because of that baseline changed, it led you to increase the current accident year, kind of the base that you went off of went up? Or are you also seeing it coming through in much more recent claims?

John Conner Roche
President, CEO & Director

This is Jack. I'll get us started here. As you know, at the end of 2011 into early 2012, we were probably one of the companies that first cited some of the escalation in severity. And so we put in place, at that time, a pretty rigorous process to figure out where this trend was going because there were some environmental shifts going on that needed to be assessed on a more than a one-time basis. So as you look across that, we've made some movement along the time. We did get to a point, probably a year ago, where we thought things were flattening out based on some significant pricing that we had thrown at the line as well as some material changes that we made from an underwriting and pricing segmentation standpoint. And we believe those had a meaningful effect. What we've observed is that the severity has pushed out a bit further. And so I would think of this as more of a continuation and maybe an accentuation of a trend that's been underway for some time but we feel like we've got our arms around it and that we're watching it carefully. And we'll continue to push hard and make sure we don't get behind here.

Jeffrey Mark Farber
Executive VP & CFO

Just to add to that, we were -- what we were seeing in the earlier years really caused us to want to be more conservative and get after it in the current year. It wasn't what we're actually seeing in the current year that was driving it specifically.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Yes, that's what I was getting at with my questions. That's helpful. And then, just one other question going to -- shifting gears to Chaucer. You mentioned that all the regulatory applications are in, and that you're, give or take, year-end, it sounds like you're expecting a close. Who should we think of -- who are the most key kind of regulatory approvals that we're waiting for?

John Conner Roche
President, CEO & Director

So the PRA, which is the London regulator, they're an important approval party. Lloyd's is an important approval party. Obviously, the Chinese regulators. Those processes are well underway. Given that China Re is owned by the Chinese government in large part, you could expect that. And then, there are a whole host of smaller, won't call them less important but smaller to the deal, whether it be Ireland, Australia, Dubai, a variety of those. And they're all well underway. We're very confident in a December or January close. At this point, things are well-scripted. And both parties are really focused on wanting to close as quickly as possible. And so we don't see a lot of things getting in the way of that. Certainly, either December or January.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then, one more, if I could, just following up on the return of capital, kind of post the closing. Can you talk a little bit about timing in the sense of once you decide that ex capital, however much it is you would like to return to shareholders through various means, how important is the timing of that? How important is it to get it back very quickly and kind of get the capital rightsized and the ROEs kind of reflecting run rate versus spreading it out over several quarters? I guess, more of the technicals of being able to buy back stock, how quickly you might be able to in spreading it out versus your thoughts on Dutch auction or special dividend or something that is a quicker means of getting the capital back to shareholders?

John Conner Roche
President, CEO & Director

Matt, this is Jack. I'll just say a couple of things, and then Jeff can follow up. But I think you're really articulating the answer, and that is it has to be a balance. There's -- we are very focused in making sure that a meaningful part of the capital gets returned to shareholders in the most efficient and effective way. And so that means that we can't have a static plan. We have to have a plan that says out of the gate, we have a commitment of deploying capital using the balanced approach that Jeff has articulated, and then an articulation from there on what our intentions are to do over time. And I think Jeff was very specific on our last call to say that we would like to set up not only a framework that articulates what -- how we get as much of the capital back in the investors' hands soon and efficiently but also how we set up a pro forma so that you know, as an investor, how much deployable capital remains and that we update against that pro forma so that you understand really what the [ROAC] is for the existing business and what the deployable capital and how we're utilizing it, how much of it got translated into some organic growth opportunities versus future capital management activities. So we plan to be very explicit about this. And Jeff, if you want to build on that.

Jeffrey Mark Farber
Executive VP & CFO

Yes. Just 2 very quick points to add to that, Jack. The first is we recognize that holding excess capital for any period of time or a reasonable period of time at 3.5% or whatever we might earn in the fixed income market is obviously dilutive to the ROE in a return. And the second point, even presenting an adjusted ROE, I think, in short order, investors will begin to lose patience and sort of get frustrated with that framework. So we recognize the importance of redeploying and returning the capital in a reasonable -- in a reasonably short period of time.

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
Vice President, Investor Relations

Thank you very much for everybody's participation today. 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.