S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

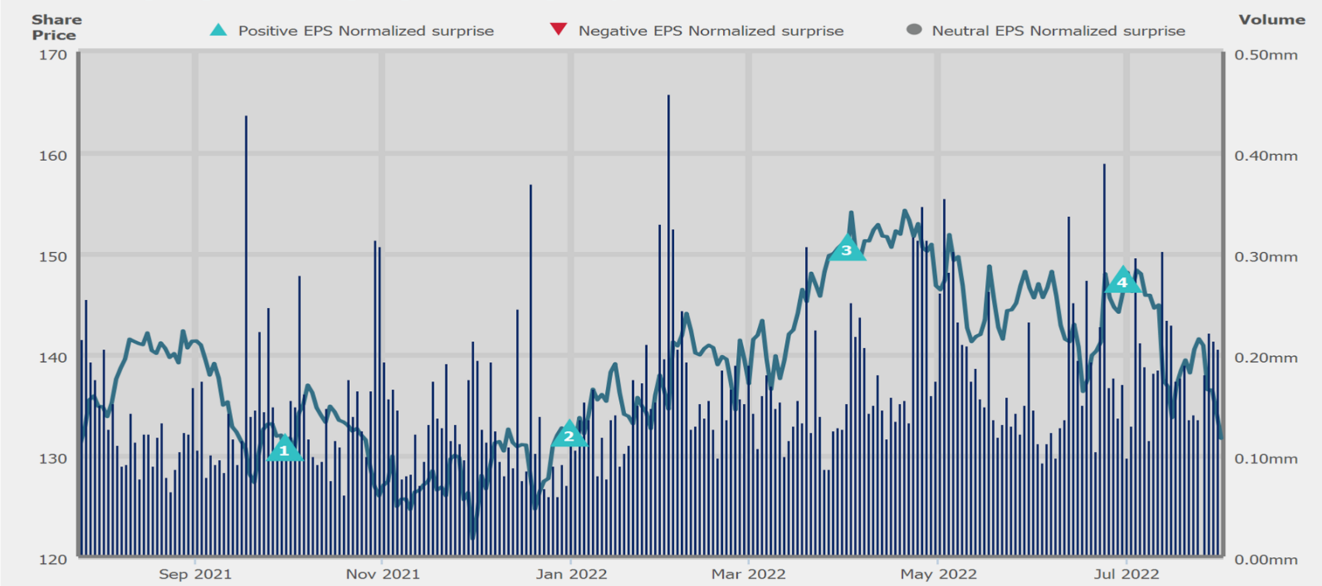
FQ2 2022 Earnings Call Transcripts

Wednesday, August 03, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-		-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	2.15	2.32	▲7.91	2.23	10.68	NA	NA
Revenue (mm)	1233.60	1332.80	▲8.04	1387.40	5308.78	NA	NA

Currency: USD
Consensus as of Aug-03-2022 1:41 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.62	0.85	▲1 37.10 %
FQ4 2021	2.54	3.38	▲2 32.55 %
FQ1 2022	3.07	3.26	▲3 6.19 %
FQ2 2022	2.15	2.32	▲4 7.91 %

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
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John Conner Roche
President, CEO & Director

Oksana Lukasheva
Senior Vice President of Corporate Finance

Richard William Lavey
Executive VP & President of Hanover Agency Markets

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BofA Securities, Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

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Piper Sandler & Co., Research Division

Presentation

Operator

Good day, and welcome to Hanover Insurance Second Quarter Earnings Conference Call. My name is Nick, and I'll be your operator for today's call. [Operator Instructions]. Please note that this event is being recorded.

Now I'd like to turn the call over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Senior Vice President of Corporate Finance

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

Before I turn the call over to Jack, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available on the Investors section of our website at www.hanover.com.

After the presentation, we will answer questions in the Q&A session. Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995, regarding among other things, our outlook and guidance for 2022, economic conditions and related impacts, including inflation and other risks and uncertainties that could affect company's performance and/or cause actual results to differ materially from those anticipated.

We caution you with respect to reliance on forward-looking statements and in this respect, refer you to the forward-looking statements section in our press release, the presentation deck and our filings with the SEC. Today's discussion will reference certain non-GAAP financial measures, such as operating income and a loss and combined ratios excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining us. I'll begin by discussing our second quarter financial highlights in the context of the current business and economic environment. I'll then provide an update on each of our business segments and put our results in perspective for you. Jeff will review our financial results in more detail, provide an update to our 2022 guidance and then we'll open the line to take your questions. We are pleased to report a strong second quarter highlighted by an 11.1% operating return on equity and 10.4% net written premium growth.

Year-to-date, we have achieved an operating return on equity of 13.4% while operating earnings per share increased 24% from the prior year. These results underscore the effectiveness of our business strategy and the strength of our agency partnerships. While our business is subject to a wide range of variable and challenging conditions, including the continuing macroeconomic pressures we experienced in our Personal Lines business this quarter, our well-balanced portfolio and disciplined underwriting minimizes the adverse impact of volatility in any one area of the business.

With another strong quarter to our credit, we continue to drive our business forward, confident we have the financial wherewithal, business strategy, products and services, distribution capability and team necessary to achieve our long-term financial and strategic goals. I'm excited to share our results with you today, starting with a review of our Core Commercial business. This segment delivered top line growth of 7.7% in the quarter, with a combined ratio of 92.6%. We continued to drive healthy rate increases of 6.9% across our Core Commercial book, up 60 basis points from the first quarter and backed by solid retention.

The increase in economic activity and increases in insured values continue to provide a meaningful lift to the exposure component of renewal premiums, driving the Core Commercial renewal pricing increase to 11%. Within the Core

Commercial business, our Small Commercial book generated excellent results, delivering 10.5% growth with strong retention rate and premium audit activity. New business, which increased relative to the prior year quarter, remains an important focus area for Small Commercial, particularly given the talent strain impact on agent capacity in the current environment.

We're committed to helping our agent partners in the Small Commercial market by providing innovative tools such as our market-leading TAP Sales platform, which further expanded during the quarter and is now available in 44 states. The value of this platform to agents is underscored by the year-over-year increase of approximately 20% in business owners policy, new business submissions as well as approximately 15% in additional registered users, exceeding our initial expectations. The increased utilization of our TAP platform spurred strong new business generation in the second quarter. And going forward, we expect that it will continue to be a critical driver of growth.

Strong pricing was the key metric for the middle market portion of Core Commercial with positive exposure activity being a meaningful driver of performance. We're leveraging enhanced pricing tools and analytics to optimize rate and retention with an emphasis on improving transactional pricing, ease of use and portfolio mix in view of rising property loss costs. Our granular pricing capabilities, combined with the continued lift from exposures should support ongoing price increases in Core Commercial. Advanced technology, underwriting discipline and talent management are all key levers we are working to our advantage to drive growth and augment profitability.

Our Specialty segment delivered exceptional underwriting profitability and high single-digit normalized growth, which was highlighted by continued strong renewals and robust rate. The momentum we've established in Specialty over the past year further underscores the potential of this business to be a pivotal growth driver in the quarters and years ahead. The rate environment in Specialty remains firm. Renewal price changes continued on a positive trajectory coming in at 12% in Q2, closely in line with the first quarter. We're also making great progress in developing and further enhancing our growing Specialty portfolio and capabilities.

Following a successful launch of our Specialty general liability product in 2021, we expect to complete the nationwide rollout in the fourth quarter. Strong growth in other new products, including retail E&S and financial institutions, combined with very positive feedback from our agent partners, highlights the successful investments we've made in our Specialty capabilities and our enhanced relevancy. This is one of the many ways in which we have further diversified our Specialty capabilities as we strive to achieve an optimal balance between property and casualty risks.

Turning to Personal Lines. In the second quarter, we took extensive action to temper the impact of environmental headwinds facing the Personal Lines industry. In response, we implemented more robust rate increases than initially planned and achieved increased renewal price changes in both auto and homeowners. In Personal Auto, we've observed the market firming in response to continued inflationary pressure. Consistent with that, we're accelerating rate filings with a clear line of sight into additional increases in the next couple of quarters. Furthermore, the persistence of our auto frequency benefit continues to track favorably to pre-pandemic levels and slightly ahead of expectations, helping to offset severity.

In homeowners, we experienced an increase of large loss activity, non-CAT weather and increased inflationary impact during the quarter. While a portion of the large loss experience appears to be aberrant, we believe further inflationary pressure and the impact of weather have longer-term implications and need to be priced for. Growth in the homeowners line was primarily a product of the significant pricing increases we have implemented and achieved over 9% as well as high retention of 89% based on market firming.

We expect new business accounts to likely decline in the second half of the year as we adjust our tiered pricing and execute on margin improvement in this business. At the same time, we'll continue to manage our homeowners business with rigorous focus as we drive appropriate initiatives across the various territories. This includes implementing further pricing increases through multiple levers that Jeff will discuss in more detail shortly. While we anticipate a certain level of short-term pressure, we have line of sight and confidence in our ability to bring this book of business back to target profitability relatively quickly.

Overall, our Personal Lines business has a long track record of delivering very strong, above-industry returns. Additionally, we maintained prudent pricing discipline through the pandemic, giving us a favorable starting point in this challenging environment. With our account mix and our high-quality book, we're certain we can appropriately align pricing to recent loss dynamics and grow in desired segments that leverage our differentiated product offerings. This strategy should continue to drive our superior performance regardless of market conditions. Today's macro environment is the most dynamic I've seen in the 36 years I've been in this business.

It is an environment that presents both challenges and opportunities. And while many uncertainties remain, we have the experienced team, deep analytical skills and sophisticated technology tools to navigate the complexities of the current landscape. In reflecting on our performance over the past several quarters, an important key takeaway is the increasing role of talent and, by extension, innovation have played in contributing to the Hanover's sustained profitable growth. One of my most critical priorities is to ensure that we continue to apply these strengths so that Hanover is positioned to win in the future market environment.

Attracting and retaining talent have long been core to our mission. As analytics-driven processes and digital tools continue to transform our industry, we're focused on making our talent strategy an even stronger advantage. We're achieving that goal in several ways. First, by helping our employees broaden their skills beyond their immediate areas of responsibility through interactive seminars, education and peer mentoring with a key focus on the capabilities needed to thrive in our rapidly transforming industry; second, by training a new generation of leaders within our organization, empowering them to help transform our business models and shape the long-term direction of our company; and third, by leveraging the strong culture we've built to create a vibrant and progressive work environment.

Together, these strategies culminate to create a workplace where innovation can continue to flourish. With most of our systems replatformed, we are directing even more technology investment resources to improve efficiency and provide a superior customer experience. Our agility and proficiency to develop new, innovative products and services based on customer preferences and demands has proven to be the smart way to win market share with our best agents. And going forward, we'll continue to be a vital ingredient for long-term profitable growth.

Overall, we're very pleased with the strong results delivered in the first half of 2022. Backed by our experienced team and exceptional agency partnerships, we are equipped with all the right tools to embrace new opportunities and navigate the complexities of our industry. We head into the second half of the year with tremendous momentum and excitement about our prospects.

With that, I will turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Good morning, everyone. For the second quarter, after-tax operating income was $83.9 million or $2.32 per share. Our combined ratio was 96.2% compared with 94.4% in the second quarter of 2021, primarily reflecting higher ex-CAT current accident year losses in Personal Lines, which I will address shortly. Second quarter current year catastrophe losses were $89.4 million or 6.9% of net earned premium higher than our second quarter cat load due to a few Midwest storms as well as several smaller events. Offsetting the elevated current year catastrophes was favorable prior year catastrophe development of 0.9 points, reflecting our prudent reserving.

Prior year reserve development, excluding catastrophes, was favorable in the quarter by $9.2 million or 70 basis points of the combined ratio and stem from workers' compensation, surety, management liability, Personal Auto and homeowners lines. Our expense ratio for the quarter decreased 40 basis points to 30.8% compared to 31.2% in the second quarter of 2021. Year-to-date, the expense ratio was in line with our full year target, and we remain on track to deliver a 20 basis point improvement in the full year expense ratio. I'll now discuss the recent performance of each of our segments in greater detail.

Starting with Core Commercial. The combined ratio, excluding catastrophes, was 88.9%, in line with the prior year quarter. The Core Commercial current accident year loss ratio, excluding catastrophes, improved 0.6 points to 57%, helped by the benefit of earned-in rate above loss trends. Improved underlying performance was driven by favorable loss experience in workers' comp and, to a lesser extent, commercial multiple peril partially offset by Commercial Auto. Overall, each major line of business performed quite well.

Turning to Specialty. We achieved a combined ratio, excluding catastrophes, of 87.2%, an improvement of 3.4 points from the prior year. Specialty current accident year loss ratio, excluding catastrophes, improved 4.7 points to 52.3%. We're very pleased with this result, which was driven by earned rate above loss cost across the book. The comparison also benefited from a large loss and associated reinstatement premium we paid in our Specialty industrial book in the second quarter of last year. Specialty net written premium increased high single digits in the current quarter on an adjusted basis.

We are remaining prudent as we set our liability reserves, working with the view that social inflation has not abated, but rather the process was temporarily slowed during the pandemic. We anticipate social inflation to reemerge fully in liability coverages. And as such, our team continues to visually monitor the litigation and medical cost environment. The Personal Lines business delivered a combined ratio, excluding catastrophes, of 93%, above our profitability target. Personal Lines Auto current accident year loss ratio, excluding catastrophes, increased to 72% from 62.2% in the prior year quarter.

The performance in our Personal Auto book is reasonably consistent with the expectations we provided on the first quarter call. We continue to experience elevated loss costs, in particular, on new and used cars, parts, labor and delayed repairs. Frequency was also higher in the quarter compared to the unusually low level experienced in the second quarter of 2021. However, frequency remains below pre-pandemic levels and consistent with Q1. We are taking a thoughtful approach to renewals, while more aggressively increasing new business pricing. Renewal price change in Personal Auto was 2.9% in the second quarter, up 50 basis points from Q1.

We are targeting renewal pricing to increase by between 6% to 7% in the fourth quarter and further increased to at least 8% in 2023. Since the fourth quarter of 2021, auto rate filings with rate increases have taken effect in 2/3 of the states in which we do business. We expect filings in most of the remaining states by the end of the fourth quarter. We're also actively increasing new business rates, which approached double digits during the second quarter and are expected to trend higher through the second half of the year. In Home and Other, the current accident year loss ratio, excluding catastrophes, increased to 6.2% from 51.7% in the prior year.

As Jack noted, the results reflected a confluence of factors, including higher-than-usual large loss activity and non-CAT weather combined with higher material and labor costs. Approximately half of the loss ratio increase in the quarter was driven by the unusual large loss activity. We have scrutinized each large loss and believe there was no discernible pattern as it relates to cause of loss, geography or customer type. We remain comfortable with the quality of our products and underwriting. Weather losses, particularly wind and hail events, which didn't rise to the level of catastrophes, represent another 25% of the homeowners loss ratio deterioration in the quarter.

We continue to leverage sophisticated data and analytical tools to analyze weather trends and adjust pricing accordingly. In addition and consistent with the rest of the industry and economy, higher inflation and supply chain issues resulted in repair delays and a significant increase in the cost of materials. In response to these dynamics, we have and will continue to implement robust pricing increases through rate and other mechanisms. Home renewal price increase of 9.3% in the second quarter reflects a strong acceleration beyond what we have expected in Q1. Our preliminary read for July suggests an increase of approximately 11%, which further supports our ability to achieve 12% to 13% renewal price change by Q4.

Through Q2, we have filed rate increases in 11 states, representing 70% of home premium. We expect to file rate increases in the remaining 9 states over the next 2 quarters. Our ability to make quick adjustments by leveraging nonrate mechanisms will supplement rate actions and support profitability improvement in the homeowners line. First, we routinely adjust home pricing to reflect prevailing inflation in addition to pure rate. These factors have averaged 2% over the last several years. They are now up to 9% on average and reached 14% in some select states, with an impact of 6% in the second quarter.

Second, we are implementing tools to further surgically adjust coverage A, including leveraging a sophisticated model that provides guidance to agents on potentially underinsured properties during the quoting and renewal process; and third, we are using a third-party AI-powered property intelligence tool based on aerial imagery to score roof condition quickly and accurately during the underwriting process. This sophisticated, fully automated technology also helps to recognize and evaluate exposure to risks such as pools, trampolines or debris.

Premium growth during the quarter, in particular, Home is a direct result of the pricing actions we are taking as well as strong retention and prior growth in our renewal base. New business had a negligible impact on the second quarter growth. With respect to the second half of the year, we anticipate policy count growth to moderate from current levels as we push for even higher rate increases. Growth is secondary as our primary focus remains on achieving the pricing needed to drive target profitability. We expect a certain level of short-term pressure in homeowners, particularly as our rate actions take time to earn in, however, we remain confident in the ability of the book to perform very well over time given the many levers that we have at our disposal.

Moving on to our investment performance. Net investment income was $70.5 million for the quarter. This result exceeded our original expectations, helped by higher-than-planned new money yields and higher cash flows. The decrease in NII from the prior year quarter was driven by unusually high partnership income in the second quarter of last year, while partnership income remained in line with our expectations in Q2. We expect partnership returns in Q3 to reflect lower equity multiples and wider credit spreads observed in public markets in Q2.

We also expect the rising interest rate environment will continue to be an overall net positive for net investment income in the long term as the portfolio turns over and is reinvested at higher interest rates. We continue to see new money yields on purchases of fixed maturities well above total portfolio yield and also above what is rolling off of the portfolio. As of today's call, new money yields are trending 150 basis points higher than we originally expected for 2022, which if sustained through the remainder of the year, would have an incremental favorable impact on fixed income NII of nearly $10 million in 2022 and $20 million to $25 million in 2023.

In terms of our fixed income portfolio valuations, the interest rate environment resulted in an unfavorable change of about $256 million after tax in our net unrealized position. Because we typically hold fixed income securities to maturity, we are not overly concerned with the temporary interest rate-based movements in the market value of the portfolio. This is a high-quality, well-laddered portfolio with a weighted average quality of A+, and we have full confidence in its ability to perform over the long term.

Turning to our reinsurance program. We successfully completed our July 1 property renewals and are pleased with the outcome. During the second quarter, we sponsored our first ever catastrophe bond, securing an upsized $150 million in occurrence coverage for named storm events in the Northeast, attaching at $1.3 billion. This cat bond issuance leads to more diversification of our reinsurance capacity at attractive pricing terms with greater access to other pools of capital. In addition, we strengthened our traditional reinsurance stack. We filled out the remaining 1/3 of the occurrence layer, attaching at $1.1 billion and bought the first 1/3 of the new additional layer attaching on top of the existing stack, including the cat bond.

Concurrently, we removed our $75 million top and aggregate cover, whose pricing had grown completely uneconomical and whose reinsurance coverage we have never triggered. Taken all together, these changes have resulted in increased reinsurance limits and occurrence program that exhausts at $1.6 billion for our highest concentration states rather than the former $1.3 billion. Our successful reinsurance renewal is a testament to our effective cat aggregation program and diversified book of business.

Looking at our equity and capital position, book value per share decreased 9.3% from March 31, 2022, to $72.20 reflecting fixed income and equity investment marks. We remain disciplined and balanced with our capital management priorities with a typical level of caution going into the cat season. Overall, our capital prioritization remains intact with a focus on growth, dividends and capital return.

Moving on to our outlook, we feel exceptionally good about our market position, our performance and our business management. At the same time, macroeconomic conditions impacting Personal Lines are proving to be more challenging for our industry than had been anticipated in January.

Therefore, we are increasing our full year 2022 combined ratio guidance, excluding catastrophes, by 1 point to a range of 90.5% to 91.5%. This outlook incorporates our experience to date, including some outperformance in commercial businesses as well as higher-than-expected property loss severity in Personal Lines. We expect to see continued inflationary pressure in Personal Lines for the rest of the year as the rate increases earn into the book. While our guidance range reflects favorable prior year development reported to date, looking forward, the guidance assumes no prior year development for the balance of the year. And our catastrophe load for the third quarter is 5.2%.

Lastly, we also expect a lift from the improved interest rate environment, likely somewhat offset by partnership performance in the third quarter. For the full year, we expect pretax net investment income to be in the range of $280 million to $285 million, up approximately 5% from our original expectations. Our strong overall performance in a very dynamic quarter and a challenging macroeconomic environment gives us confidence in our ability to continue delivering broad-based profitability across our business. Supporting our confidence is our solid track record of delivering consistent earnings and returns.
Using the sophisticated tools and robust financial levers at our disposal, we are well positioned to take advantage of the many opportunities ahead. With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] First question comes from Matt Carletti, JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple of questions. On Personal Lines, I was hoping you talked a little bit. Some of your peers have -- with different footprints have expressing concerns about getting rate increases through regulators. And so I'm hoping you could talk a little bit about kind of what your experience has been in your larger states, which I'm thinking like Michigan, Massachusetts and so forth. It seems, Jeff, from your comments, particularly on kind of what you've done in July, it doesn't seem like there's any headwinds there, but I'd just like to hear a little color if you can provide it.

John Conner Roche
President, CEO & Director

Yes. Thanks, Matt. This is Jack. I think early on, we did experience some -- a few states that were treading water, if you will, on rate increases or putting some additional process in place. I think what you'll see from our pricing trajectory is that, that has been overwhelmed by the obvious need in every state for some Personal Lines rate increases, both Auto and Home. So we're confident that those initial blocks, if you will, are already giving way. And as you said, we're not in places like California and others where there's really substantial blocks that are allowing companies to get the appropriate rate. So...

Jeffrey Mark Farber
Executive VP & CFO

Matt, I would just add also, we have, as you probably would expect, very good tight relationships with the Department of Insurance in Michigan and Massachusetts, in particular, where we have a lot of scale. We have dedicated state management and actually real resources that focus on that. So yes, I don't anticipate any problems going forward, particularly on the home side, right? This is home, there's clear acceptance of the rate that's being pushed through. It's really an auto discussion.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. Great. And then just a follow-up, if I can. Shifting to Specialty and Commercial. Jack, you've talked in the past about how your Core Commercial customers buy a whole lot of Specialty coverages in the past, that hasn't been for Hanover. And so I'm hoping you can maybe update us on just kind of how that -- over the past several quarters kind of how that cross-sell initiative has gone? And have you had much success at kind of garnering some of those lines of business kind of into the package that Hanover provides?

John Conner Roche
President, CEO & Director

Yes, Matt, I particularly appreciate that question because we are gaining momentum, both in terms of more and more Specialty business coming to us monoline, if you will, through some of the panels and platforms that some of the larger and consolidating agents are putting together as well as more and more filling out the package, cross-sell-type opportunities that Bryan has spoken to, not only in terms of how we approach the agents, but the operating models that we built to support that. So Bryan, why don't I let you elaborate on that?

Bryan James Salvatore
Executive VP & President of Specialty

Yes. Thanks, Matt. And so earlier, Jeff spoke about some of our new lines of business, our Specialty general liability, our finance institutions, our retail -- E&S. All of those -- a big part of our plan was to drive, cross-sell with our agent. And that's what's coming through. That's really supporting our growth. And in our broader business, we're seeing it as well. I think that cross-sell is having a material meaningful impact in our growth, and we're really feeling pretty good about the growth and the performance. And so that is and has been additive.

Operator

Next question will be from Meyer Shields from KBW.

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

Let me start with the modeling question, if I can. I'm sure this is contemplated in your guidance. But when we look specifically at homeowners, is the increasing reinsurance spend going to impact the asset year loss ratio in the back half of this year?

John Conner Roche
President, CEO & Director

Yes. I'll let Jeff speak to the specifics of the reinsurance program, but I'll remind you that in our cat program, if you will, based on the retention levels that we have, Personal Lines overall and homeowners in particular, really don't reach those thresholds very easily. So Jeff, do you want to address that more specifically?

Jeffrey Mark Farber
Executive VP & CFO

Nothing to add. With our retention, first, new home losses would hit the tower.

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

I'm sorry, I didn't catch that.

Jeffrey Mark Farber
Executive VP & CFO

There was -- something broke up. With our retention levels in the property per risk, it would be very unusual for a home loss to approach the tower. And so therefore, the allocation of reinsurance cost is not really relevant to the home business.

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

Okay. Perfect. That's very helpful. And second, this is more of an abstract theoretical question, but you're clearly seeing a benefit on the homeowners pricing from rising home values, and that goes through automatically. Is there any way of implementing something like that in Personal Auto? So when we go through these periods of inflation do not subject to as much potential regulatory friction.

John Conner Roche
President, CEO & Director

Yes, Meyer, this is Jack. Listen, overall, it is a challenge to do something similar in terms of insurance to value on auto. You can't just go into the system and change the cost new or get the values in there. But there are a number of levers that we pull, both on new business and renewal that our rate and nonrate levers. So Dick, why don't you maybe elaborate on how we adjust pricing beyond the cost new adjusted?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Right. Yes. I mean there are other levers that we look at like the account discount, making sure that, that is applied or not applied. And we look at violations. We go back and scrub our book to make sure that we're appropriately capturing violations. So there's things that you can look at through the performance of the book, which you can then turn into rate. The only thing that's even close to what you're asking is like a symbolling of a newer vehicle. So if you can capture that properly, the newer vehicles would capture a higher rate, but there's not the equivalent of kind of an ITV for coverage A.

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

Okay. That's helpful. And then one final question, if I can. I think, Jack, you talked about slowing Personal Auto PIF growth. Are you taking any actions, or is this just an expectation as pricing increase has rolled in?

John Conner Roche
President, CEO & Director

Yes, it's actually a great question because no one knows how firm the market will get and how much your retention level will dip relative to the enhanced pricing that you're putting through or even as you adjust your new business pricing, it's all relative. Our expectation going into the second half of the year is that we'll continue to retain a good portion of our book of business as we push aggressively on price. The assumption we have made that we spoke to in our prepared remarks was adjusting the new business styles including the tiering so that some of that new business likely slows down.

But again, it's all relative to the other markets that we compete against. And all indications are is that people are pushing pricing and changing their tiering within their multi-barrier product pretty aggressively. So time will tell. But we're clearly not, as Jeff said in his remarks, we're favoring margin improvement over growth, we may get both.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Right. yes. The only thing I'd add is we are seeing kind of a new level of price elasticity where there's -- where our retentions are at some of the highest levels we've experienced. So as we push that growth -- I'm sorry, that rate, our customers are accepting it, and that's likely due to what other players are doing in the marketplace.

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

Okay so low -- I'm sorry, so lower elasticity?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Lower elasticity. That's right.

John Conner Roche
President, CEO & Director

Correct.

Operator

Our next question will be from Paul Newsome, Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I was wondering if you could talk a little bit again on the Personal Lines side about regional competition. We just heard Progressive talking this morning about trying to get out of Florida into the Northeast. And whether or not you're seeing any sort of differentiations in the competitive environment by kind of state-by-state basis, just based upon your regional footprint?

John Conner Roche
President, CEO & Director

Yes, Paul, this is Jack. Clearly, the answer is yes. I think traditionally, the national kind of stock companies, if you will, are -- have a more sophisticated pricing approach, but also better analytics and more motivation, if you will, to change pricing quicker. And as much as 60% to 65% of the business in the IA channel is written by regional carriers. So that is a phenomenon that we constantly deal with. That said -- and I know Dick can elaborate on this, is that this market is moving very, very fast. We are -- there is no one that is immune to the inflationary pressures that are coming upon them.

And so even kind of mutuals or regionals that are less inclined to be early movers in pricing, they're going to become fast followers, and there's good indication of that right now. Dick, would you add to that?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Just a little color. Absolutely, you called it right. I mean, it depends on the states you operate in. In some of the states, like, as an example, in Michigan, we're up against more of the regional players, the mutuals, where some of the national players are not as present. In other states, that's a different story. So it's -- there's no one kind of competitive environment that we can -- we have to adjust ourselves based on the state. I would also say that pricing sophistication and technology will become more and more important. And some of these regional players and mutuals haven't kept pace with some of the pricing sophistication and engagement tools that they have. The aerial imagery that Jeff mentioned in his commentary, that's really important to understanding what your book looks like and how you're going to price it. So we think we have some advantages against those players.

John Conner Roche
President, CEO & Director

I think net-net, what you should know is that we're going to have a real firm market, and we're well on our way in Personal Lines across the country. And I don't think you'll see any sustainable differentiation between regionals and nationals, given how strong the inflationary pressures have come on.

Paul Newsome
Piper Sandler & Co., Research Division

Great. My second question, I was hoping to get some of your thoughts on the impact of exposure increases. My personal view is that we're going to have a debate in the future about how much of an exposure increase, access rate versus not rate. And maybe you could just kind of talk about your opinion about that if it differs by your major segment very much, if it has any impact in personal lines. So just curious about your general view on that as we tried to think about the exposure improvements and the impact of profitability prospectively.

John Conner Roche
President, CEO & Director

Yes, Paul, this is Jack again. I think the topic is important for us to continue to talk about as an industry. And the answer is yes, there is quite a variance between -- from line and sector on how exposure translates into additional loss costs versus additional pricing over those loss costs or loss trends. We evaluate this continuously in a dynamic way. As you can imagine, in Personal Lines right now, with the inflationary pressures that have come upon, they come upon both homeowners and auto physical damage in very different ways.

And we have the best analytics we've ever had to break down exactly what are the exposure increases, what are they coming from? How much is labor, how much of its parts? How much of its used car that are replacing cars versus in some of the liability lines, both Personal Lines and Commercial Lines where you have to evaluate how much of the additional exposure, whether it's payroll or sales and Commercial Lines translates into additional loss costs. So we evaluate that by line, by sector and develop an opinion across that. And we are applying as much insurance to value into the system as we possibly can, related to the property exposure increases and then evaluating kind of the broader analysis. So anything else that you would add?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

No, I think you captured. I mean, homeowners is probably the best example of where we're systematically increasing our insurance -- our coverage A, which is a replacement cost as a reminder. And so that's across the entire book. And it does capture, of course, the inflationary elements of repair. But it only really comes into play in a total loss situation, right? So you're getting this across your entire book, but obviously, you're not having total losses, but only a small fraction of your book. So it plays through as a rate lever.

Operator

[Operator Instructions] Next question comes from Grace Carter, Bank of America.

Grace Helen Carter
BofA Securities, Research Division

Just given the uptick in Core Commercial rates and very modest downtick in Specialty rates versus the first quarter, I was just wondering if you could give your take on the competitive environment and any differences between those 2 segments. And if you think that pricing remains rational across both of those segments?

John Conner Roche
President, CEO & Director

Yes. This is Jack, Grace. Thanks for the question. And I would answer the latter part of your question first. I do think the market is behaving quite rational. I'll remind you that both in Core Commercial and in Specialty, we play in the small to mid-account space. And that travels differently than some of the sectors that surround us, and particularly some of the larger accounts or more severe -- severity-oriented Specialty business, whether that be the upper end of E&S or Med Mal or some of the high-end employment or management liability, professional liability lines.

So because of that, you saw we didn't get the dramatic price increases over the last couple of years when people were having a real firm market in some of those sectors, we got more gradual increases. We think that's a big factor on why we're continuing to have sustainable price increases. And then most recently, we think people are starting to acknowledge that the property, not only inflation, but some of the volatility in the property lines requires more rate than within the system or within the sectors. Previously, a lot of that was driven by liability trends or anticipating liability trends. So a lot of moving parts here, but the short answer, I believe, is that we are anticipating a pretty firm market and our Specialty and core line teams are seeing that pretty consistently across the country.

Grace Helen Carter
BofA Securities, Research Division

And I was wondering if you had noticed any atypical pressure on loss cost trends for umbrella coverages here lately.

John Conner Roche
President, CEO & Director

I'll let Dick elaborate, but the short answer is no. We evaluate this regularly and we have not seen a material uptick in our umbrella loss experience, but we have been aggressively changing some levers despite that.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. We've been managing our limits on high-hazard accounts. We've been pushing price aggressively, but our loss content in the commercial umbrella side is nothing to speak of.

Operator

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

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, everybody, for your participation this morning, and we're looking forward to talk to you next quarter.

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