S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

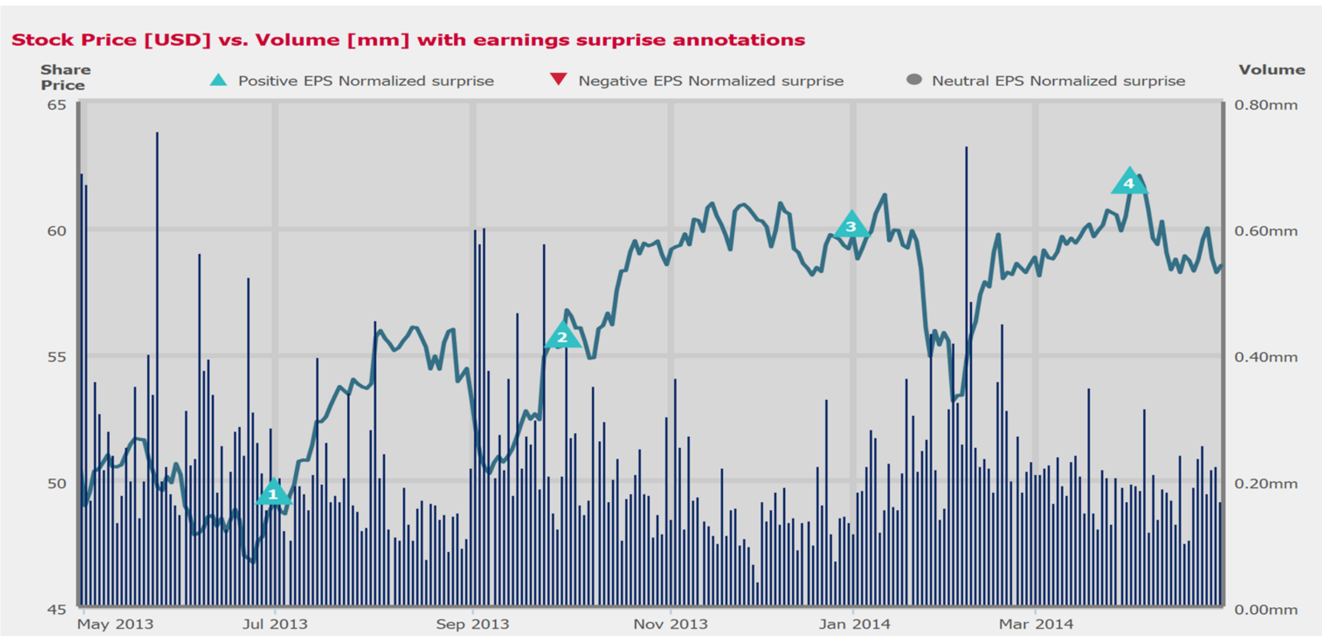
FQ2 2014 Earnings Call Transcripts

Friday, August 01, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.18	1.30	▲10.17	1.24	4.90	5.58
Revenue (mm)	1307.45	1276.20	▼(2.39 %)	1217.65	4750.80	4957.42

Currency: USD
Consensus as of Aug-01-2014 8:03 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.71	1.05	▲1 47.89 %
FQ3 2013	1.04	1.36	▲2 30.77 %
FQ4 2013	1.08	1.33	▲3 23.15 %
FQ1 2014	0.94	1.05	▲4 11.70 %

Call Participants

EXECUTIVES

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

John C. Roche
President of Hanover Agency Markets

Mark R. Desrochers
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Matthew John Carletti
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Second Quarter 2014 The Hanover Insurance Group Inc. Earnings Conference Call. My name is Denise, and I'll be the operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now turn the conference over to Oksana Lukasheva, Vice President, Investor Relations. Please proceed.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, Denise. Good morning, and thank you for joining us for our second quarter conference call. We will begin today's call with prepared remarks from Fred Eppinger, our President and Chief Executive Officer; and David Greenfield, our Executive Vice President and CFO. Available to answer your questions after our prepared remarks are Mark Desrochers, President of Personal Lines; Jack Roche, President of Business Insurance; Andrew Robinson, President of Specialty Lines; and Bob Stuchbery, President of International Operations and Chief Executive Officer of Chaucer.

Before I turn the call over to Fred, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available in the Investors section on 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 earnings guidance for 2014. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call.

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 per share, operating results excluding the impact of catastrophe and development and ex-cat loss and combined ratios, among others. A reconciliation to these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release or the financial supplement, which are posted on our website, as I mentioned earlier.

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

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you, Oksana. Good morning, everybody, and thank you for joining our second quarter earnings call. Overall, we are very pleased with our results. We continue to make meaningful progress on all our strategic priorities, leveraging the momentum built last year and through the first quarter.

We delivered net income per share of $1.84 for the quarter. Operating income per share was $1.30, up 24% from the second quarter and up 10% on an ex-cat basis. Our annualized operating ROE was 9.7%, moving closer to our goal of top quartile performance. Book value grew 7% year-to-date and 4% in the current quarter.

The main highlights for the quarter include improvement in domestic underwriting results coming from most of our businesses, another strong quarter at Chaucer, a return to modest premium growth in Personal Lines and continued growth in Commercial Lines, all of which underscore the progress we have achieved across our organization.

In light of the thorough strategic discussion we provided at our recent Investor Day, today we plan to briefly review our second quarter performance, which confirms the expectations and trends we discussed then and gives us even greater confidence in our performance going forward.

I will now turn the call over to David to review our financials. And after that, I will come back to set the stage for the second half of the year and our long-term perspective.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you, Fred, and good morning, everyone. Our second quarter results were solid and met our expectations on virtually all fronts. Looking at the quarterly trends, we're confident we continue to deliver -- delivering on the combined ratio improvements growth and ROE targets we set for ourselves.

Net income for the quarter was $83 million or $1.84 per diluted share, compared to $53 million or $1.19 per diluted share in the prior year quarter.

Operating income was $58 million in the quarter or $1.30 per diluted share, compared to $47 million or $1.05 per diluted share in the second quarter of last year.

Realized investment gains account for the majority of the difference between net and operating income, and one item stands out here. Chaucer held an equity stake in Antares, a Bermuda-based underwriter that was sold earlier this year and which closed in the second quarter. The realized gain on sale was roughly $20 million. And while it's included in net income this quarter, it had already been reflected in our book value in prior quarters as an unrealized gain within AOCI.

Turning to operating results. We further improved the combined ratio by almost 2 points this quarter to 96.8%, compared to 98.4% in the prior year quarter. Catastrophe losses represented 5 points of the combined ratio, compared to 6 points in the prior year quarter, while favorable loss reserve development was in line with the second quarter of 2013. The accident year combined ratio, excluding catastrophes, improved by a point, reflecting better underwriting results in Commercial Lines, while Chaucer performance remained consistently strong despite a higher incidence of large losses this quarter.

Starting with the catastrophe activity, losses in the quarter were $56 million, of which $44 million came from the domestic business. Almost half of our U.S. catastrophe losses stemmed from a hail and tornado event in the Midwest in mid-April. Chaucer's $12 million of catastrophe losses included weather events in the U.S. and Asia.

Moving on to accident year loss ratios, excluding catastrophe losses. In our domestic business, the loss ratio improved 2 points to 60%, from 62% in the second quarter of 2013.

In Commercial Lines, the nearly 3-point improvement resulted from better loss experience in both CMP and Other Commercial Lines. Higher margins in CMP were driven by pricing initiatives and mix management. Other Commercial Lines, which incorporates our specialty businesses, including surety, improved by about 4 points over the prior year quarter. This improvement was driven by previous and ongoing mix management and pricing actions.

Specialty business maturation and organic growth should continue to drive improvement through the remainder of the year.

In commercial auto, we feel confident that our continuing re-underwriting efforts, as well as rate actions, are helping, but there is more work to be done. We achieved 8 points of pricing increases this quarter and are taking a more rigorous stance toward auto-heavy accounts. We continue to maintain a conservative approach to this line, given continuing prior year BI severity loss emergence in the industry and in our own book.

In Personal Lines, we generated a loss ratio of 62.7%, relatively in line with the second quarter of 2013. The personal auto loss ratio improved by more than 2 points, resulting from rate increases, continuing mix shift towards account business and underwriting refinements.

The homeowners line was impacted by higher-than-expected first quarter 2014 non-catastrophe weather-related losses that added more than 3 points to the loss ratio in the quarter.

Moving on, expenses in our domestic businesses were essentially flat compared to the prior year quarter. We delivered a 1-point improvement in the Commercial Lines expense ratio, driven by increased premium volume and operating efficiencies, and we remain on track to hit the target of 1-point improvement in Commercial Lines we expect for 2014.

The Personal Lines expense ratio increased 1 point this quarter due to timing of performance-based expenses, as well as a lower earned premium base. Our return to growth in Personal Lines should relieve the expense pressure over time, and we continue to expect the full year ratio to be fundamentally in line with 2013.

Chaucer delivered another strong performance this quarter, resulting in a combined ratio of 92%, compared to 90% in the prior year quarter. The segment's performance included favorable prior year loss reserve development, which was partially offset by a higher incidence of large losses in the marine and aviation line, when compared to the prior year quarter.

Chaucer's expense ratio at 39% for the quarter was slightly higher than our long-term expectations, primarily due to foreign exchange fluctuations.

Looking ahead to the second half of 2014, we anticipate that Chaucer will gravitate to a combined ratio run rate of 95%, more in line with long-term historical averages and consistent with our outlook for this business.

Turning now to the top line. Net written premium growth for the quarter was 3%, driven by 4% growth in each Commercial Lines and Chaucer, and flat premiums in Personal Lines.

We maintain focus on optimizing our business mix and take a balanced approach to growth, as we continue to execute exposure and mix management initiatives. At the same time, we enjoyed strong growth in Small Commercial, management liability and health care, where we are seeing attractive opportunities.

We continue to advance our key strategic initiatives in all areas of our business, with the ultimate goal to generate margin improvement and targeted returns.

Turning now to our investment results. Net investment income this quarter was $67 million, $1 million lower than the prior year quarter. The low interest rate environment continues to put pressure on investment income, though positive operating cash flows have mitigated the negative impact to some extent. The earned yield on our fixed maturity portfolio was 3.74% in the quarter, compared to 3.98% in the prior year quarter and 3.79% in the first quarter of 2014.

At June 30, 2014, cash and invested assets were $8.4 billion, with fixed income securities and cash representing 91% of the total. 94% of our fixed income portfolio is investment-grade, and the average duration of the portfolio is 4.1 years. The portfolio remains high-quality and well-laddered.

I'll finish up with a few comments on the strength of our capital position. Book value per share was $63.65, a 4% increase in the quarter and 7% year-to-date, reflecting solid earnings and increased unrealized investment gains. Growth in book value drove a decrease in the debt-to-capital ratio to 24%, which is well within our targeted range.

Statutory capital in our domestic businesses grew to $2 billion in the quarter. Our balance sheet and stable reserve position provide a strong base in which to grow our business and achieve our financial targets.

And with that, I'll turn the call back to Fred.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks, David. This quarter, we continue to build on the momentum we established over the last several quarters. We further enhanced our underwriting performance while strengthening our position with agents and brokers for profitable growth.

I'd like to begin by addressing the subject of weather. Our catastrophe losses this quarter were largely in line with our expectations, while industry saw more elevated losses. The continuing elevated weather losses emphasize the importance of the work we have been doing to manage our exposures and reduce micro aggregations and concentrations. While these exposure actions impacted our top line growth, we believe they have reduced earnings volatility over the last several periods and we are in a much better position to withstand the consequences of major weather events today than only 3 years ago.

The lion's share of that exposure management work is behind us, although our continuing actions will affect the next 2 quarters, particularly in Personal Lines, and to a lesser extent, core commercial.

We are pleased that, even including the impact of these actions, Personal Lines returned to a breakeven growth level this quarter. Stable voluntary retention and strong new business writings generated by our new total account solution, the Platinum Experience, have resulted in written premium returning to flat this quarter.

As we discussed during Investor Day, Platinum represents the essence of our value-added account strategy in Personal Lines. This distinctive offering provides an industry-leading solution for an agent's value-oriented customers. We remain convinced of the effectiveness of our approach to the Personal Lines market. The progress of this strategy has been underscored by continuing improvement in our loss results, as well as the strong pricing persistency in our business.

In the second quarter, we achieved rate increases of 5% in auto and 8% in homeowners. And given our recent retention levels, we believe we'll be able to sustain similar increases going forward. Taken together, we believe these trends will provide for modest growth in Personal Lines in the second half of the year, with increased momentum in 2015 as we complete our exposure management actions.

In Commercial Lines, specifically core commercial, we continue to grow favorably, driven by rate increases partially offset by targeted re-underwriting actions, with a particular focus on auto.

Pricing increases in core commercial for the quarter were approximately 7%, down roughly a 0.5 point from the first quarter. We continue to see stronger rate persistency in growth in smaller accounts. As the industry begins to experience a slowing pace of rate increases, most notably in the middle to large account, we've been able to maintain solid pricing because of our focus on smaller account sizes, diligence around pricing segmentation and consistent messaging to our partner agents.

While we are not immune to industry trends, we believe our business mix and position with our agent partners, will help shield us from rapid deceleration. In addition, we are confident that we are in a strong position to continue to see improved underwriting margins through a combination of mix, underwriting and price initiatives.

Our specialty businesses grew 3% overall in the current quarter, with average pricing increases in the mid-single-digit range. We are very pleased with the continued increase in profitability in specialty. As these businesses mature, and with each quarter of improved underwriting results, our confidence grows in the additional contributions that can be delivered in the future.

Before I comment on Chaucer, I'd like to emphasize that distribution has been and continues to be a cornerstone of our strategy. Our ability to grow profitably depends on the strength of our relationships we foster with our partner agents. Our thorough agency planning process and in-depth market analysis provides the insight for us to grow positions in attractive segments with the best-performing distributors in the U.S. This, along with the investments we have made in our product portfolio, is allowing us to gain more preferred shelf space with the best agents, which translates to meaningful growth potential.

Chaucer delivered another strong performance this quarter, despite the challenging market. Rates remained under pressure in the second quarter for many classes, due to high industry capacity and continued absence of major industry losses. This said, our strong market expertise in many business classes and our broad and diverse portfolio allow us to market headwinds with a good measure of success. We occupy a leadership position in many areas and employ a very thoughtful approach to the market, finding attractive opportunities in areas such as political risk, trade credit, casualty and many others.

All in, we could not be more pleased with our performance in the quarter. With solid growth in Commercial Lines, continued improvement in our underwriting results and our return to growth at Personal Lines, we feel very good about the momentum we have established. We will continue to focus on pricing and mix management initiatives while exploring and capturing attractive market opportunities with our partners, all with the intent to deliver on our return targets and grow shareholder value.

Given our continued progress this quarter and performance in line with our expectation, our outlook for the year, which we shared with you at Investor Day, is unchanged. We are confident in our ability to deliver operating earnings per share of $4.80 to $5.20, with our most likely outcome remaining toward the lower end of the range, given the first quarter weather that was in excess of our original expectations.

Our outlook includes an estimate of catastrophe losses of 5% for the second half of the year, which is more weighted towards the third quarter. Specifically, cats will be more likely 6% in the third and 4% in the 4.

Operator, can you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Just a couple of questions, more kind of numbers oriented. So the first one, I'm looking at the accident year ex-cat in personal auto. It showed a nice improvement, kind of sequential quarter, almost 5 points. I understand weather is part of that, but can you give a little more color, just on how much of that is non-cat weather and how much of that is just getting a little more comfortable with where the true attrition lies with some of the pricing actions and exposure actions you've taken in recent quarters and years?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, I mean, obviously, to start, the first quarter was certainly elevated from the weather -- the winter weather, as you know. We haven't actually quantified that. I don't have that specific number here, but it's a good part of it. We're obviously feeling better about auto. It is improving, and we expect it'll continue to improve through the rest of the year. And I think the other point I'd mentioned on auto -- Mark can add if he'd like. You also saw we've -- we were feeling a little bit better about some of the prior years as well, and we had some releases there, so...

Mark R. Desrochers
Former Senior Vice President and President of Personal Lines

Yes, I would just reiterate David's point about [indiscernible] we definitely, and I think we talked in the first quarter call, about the impact of weather in the first quarter. So I think the sequential comparison, if I give you a rough estimate, it's probably 50/50, the pricing versus the weather sequentially. But we do realize we're getting 2 to 3 points of real underlying improvement in the line of business.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay, that's very helpful. And then maybe sticking with auto, just to the commercial side, you continued to kind of put some away every quarter in the prior years. And my question is, how much are the underlying trends changing versus your level of conservatism? So is there -- are you seeing numbers in your severity kind of persisting or worsening each quarter? Or is there an element of it that it's maybe taming down a little, but you're not willing to call the end yet and you're willing to kind of add a little more caution?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, I think it's probably somewhere in between those 2 scenarios you described. Obviously, we've been very thoughtful about commercial auto for quite some time. We've talked about it on many calls, going back to last year. And we maintain, as I said, a very cautious approach to the line. Nevertheless, the severity factors continue to stay somewhat high, and we're doing a lot of work in this line of business to improve profitability through rate actions and underwriting actions. And so we're going to continue to be cautious. And we're going to continue to allow some of the development, if you will, that we see come through the results. And it will be some time before I think we'll think we're at the end of this, at least a few quarters, I think. Jack, if you want to add...?

John C. Roche
President of Hanover Agency Markets

Yes, the only thing -- this is Jack Roche. The only thing I would add to that is that clearly, we're going to continue to reflect the experience that we see, and that's, obviously, more and more competitors are finally catching up to -- but at some point in the future, it's hard to predict, the pricing that we have been able to accomplish, particularly in 2013 and that's sustaining into 2014, will start to really take effect. And I think as you characterized, we're reluctant to start taking too much credit for that pricing until we see the actual BI trends subside a little bit. We have moved away from auto-centric accounts, and you're starting to see that in some of our production, particularly in middle market, because this is somewhat a new frontier. The severity levels are -- there's a variety of opinion as to what's driving it, and so we're going to continue to be relatively cautious in this line of business.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay, makes sense. And then just quick last question. It's probably more for Bob as it relates to Chaucer. Your aviation book, I know it's not an airline-centric book, but could you give us just some feel for how much of it is whole? Is there a war element to it? I mean, I think there'll be -- we'll see how much, but there should be a nice hard market coming in that niche market. And what's Chaucer's exposure to it? And is there an ability to upsize that exposure? Do you have the skills and the talent onboard to take advantage, if you want?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Yes, our aviation book -- general aviation is mainly general aviation. So we avoid those airlines, the major U.S., U.K., Japanese-type airlines. The aviation war exposure that we've had today has been very limited, but we have started to write that business and we took a decision to enter that class around April of this year. So we've missed all of the losses that we've got at the moment, and there are already a lot of losses in the marketplace you've been reading about, not just the Malaysian, but also the incidents that we've had around the world. We're now in a good position to benefit from that. So we wouldn't have picked up any of those losses to date, but hopefully, the decision to enter that market will pay dividends this year or later.

Operator

Our next question comes from Bijan Moazami with Guggenheim.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

I have a bunch of questions, all related to your Commercial Lines business. You've been getting rate increases well in excess of your competitors, but your retention ratio is going up, which is a little bit counterintuitive. At the same time, your net premium volume growth rate is slower than your price increases. And I assume that, that's probably because you're growing your small account business. So I guess the question is that, if that's the strategy and that's what's impacting the retention and the growth in policy and force [ph] volume, is that trend accelerating, decelerating? And if you can provide some color on that.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, I'll comment and then I'll have Jack follow up here. That's exactly what's happening. We have a focused strategy, both frankly, in our middle business and in our small. You'll often hear us talk about the smiddle end of that business, at the middle end and in small. We've talked a lot in Investor Day of our kind of end-to-end strategy from -- particularly in, say, a CPP, from the lowest end of that to a, say, a $50,000 account. We have tremendous traction in that business right now. We do it well. Our local market network is well established. Our ability to pipeline with agents to get access to that business is in a really good place. In addition, because of the average policy size, because CPP is a less crowded market, our ability to get pricing has been available. And I would also -- you've also seen some regional companies struggle in that market, because I don't think they have the same level of insight. So there's a little bit of opportunity here to proceed and both get price. What you've seen is price retention and growth, which is a nice combination for us in that segment. And that will continue. The other thing we mentioned at Investor Day a little bit is that, that is a category, where some of the agents are consolidating their markets and going to lead markets, preferred markets, so they have more alignment, and that trend is obviously helping us with our partners as well. So it is a -- again, we are doing pretty well across our commercial businesses. But I would tell you, the smaller accounts in particular has been a pretty good success for us so far this year. Jack, is there anything else we should [indiscernible]?

John C. Roche
President of Hanover Agency Markets

Yes, no, I think, Bijan, we're very excited about the strategic choices that we made a couple of years back to really kind of forecast this and say that as the business continues to consolidate, we think the smaller end can be a little bit more sustainable. I think more and more agents are focused on the middle market sector, and so that business tends to get some hypercompetition. And so we have tried to emphasize the smaller end. So our account size, our line of business mix, our profiteers and our geographic diversification are all the levers that we've been pulling to try to optimize our portfolio while we further penetrate some of the best agents in the country. And so to your point, I think we are getting above market level pricing, while we sustain 82%, 83% retention in the core business when we are still moving forward on some exposure management and auto-related profit improvement. So that's encouraging to us as we move closer to '15, that we might be able to actually elevate our retentions in the future and still drive above-market pricing.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Okay. On the expense ratio, again, core Commercial Lines business moving the right direction, down 1 point, but still pretty high up. And I know you guys have been investing heavily in technology and your distribution and what have you. So I guess the question is, what drove the expense ratio down? How much further downside you see in that? And when it would bottom -- where would it bottom?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, I think maybe I'll start on this, Bijan. I mean, the 1-point improvement is in line with what we expected. A lot of that is coming from 2 factors. One, obviously the growth in the business brings great leverage to that item, based on the investments we're making. And secondly, we're very thoughtful in this part of the business to be mindful of where our expenses are and we are undertaking certain efforts to reduce certain expenses. But predominantly, the leverage factor will be the biggest thing that will drive that expense ratio down. And I can let Jack comment on when he thinks he'll get there, but that's -- like you said earlier, it's hard to predict the end of that, but...

John C. Roche
President of Hanover Agency Markets

And it's a broader question than just the core commercial, right? I think what we'll continue to do is optimize. And so while we think we have operational leverage from a lot of the businesses and the operating models, we also caution everybody that our mix, right? We'll grow the businesses that we think we have the best overall opportunity. So that will make the expense ratio a little less predictable, because we have a number of Andrew's specialty businesses and others to choose from to the degree that Small Commercial outpaces middle market and some of those, that puts a little bit of pressure -- or excuse me, that gives us the opportunity to improve the expense ratio trajectory. But time will tell, really, what the right mix is for us there. But clearly, what you're seeing is growth is our friend when we can find it. We have a very leveraged situation from an expense standpoint. And also, I think we continue to find some pretty substantial operating efficiencies across, really, most of our businesses.

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

Bijan, this is Andrew. Just one additional point I think that Jack touched upon, which is if you look across all of our commercial businesses, all have a good, improving trajectory on expense ratio. But depending on the relative proportion of growth from any one of the businesses, some of that can actually be masked. So certainly, in places like surety, as an example, the expense ratio is a great deal higher. So if in a period we see some incremental growth from one of those businesses, that actually can hide the underlying improvement that's actually occurring across our franchise.

Operator

Our next question comes from Dan Farrell with Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

I was wondering if you guys could just comment a little bit more on the workers' comp segment. We saw the slowdown in growth there. And that's a segment where you guys have actually had quite consistent results, and I think better results than sort of industry. So maybe just comment on what you're seeing there in the decline in premium and how you're thinking about that going forward.

John C. Roche
President of Hanover Agency Markets

Yes, I think we're still very confident that the mix that we've driven in workers' comp and the relative conservative position we took in the last several years is paying dividends for us. And so what you saw is last year, we had more growth in the workers' comp line. This year, we're continuing to work through some mix issues. Particularly as we grow in certain geographies, workers' comp may or may not be the emphasis in certain states. So that's going to move around a little bit. But I think longer term, we think our performance within the industry is quite good. And as we -- in particular, the growth that we have in workers' comp is predominantly, if not exclusively, in the Small Commercial area. And so until the middle market sector kind of improves a little bit overall, you won't see us play that card.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, so Dan, I think this is a little bit of a timing issue, because it's -- the Small Commercial is growing very nicely for us. We love to round out accounts. We were playing a little bit of catch-up in the last previous couple of years in rounding out some of our Small Commercial accounts. And now it's kind of coming in together, more full accounts as we go. So I think what you're going to see is that growth is going to bounce back up. We also took some action on a couple of things that affected it. But I think you're going to have some consistent growth in the Small area and comp as a kind of a natural mix as part of that.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Okay, great. And then David, just on your comments on Chaucer, the combined ratio moving towards a 95%, is that a total combined ratio that you're referring to? And then what's your thought on reserve trend there and thinking about reserves going forward? Because that's one that's come through very strongly, I think, over the last couple of years, frankly.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Sure. So starting with the combined ratio, I mean, we've always held that the long-term target, if you will, the long-term expectation for Chaucer is more around a 95%. We've seen, obviously, great, great experience on the loss side, where there's been very little experience in prior years -- the last couple of years. Obviously, this quarter, we saw higher incidence of losses, but still below what the long-term average is. We'd be -- so my comment was really to make sure people don't lose sight of the fact that even though we had higher losses, they're still not necessarily equating to long-term averages, so to speak. On the -- on your second part of your question on reserves, I'm very, very comfortable with the reserves on the Chaucer book. As part of Lloyd's, there's an approach to reserving that you see throughout the market there that is very conservative. It establishes reserves for uncertainties, given the, sometimes, lag in reporting or the underlying loss data that comes into the market is somewhat delayed. And so from my perspective, the reserves are as strong as they've ever been in that business, and I would continue to see them maintaining that position.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Just one last question on Chaucer. How did currency impact the quarter? Is there any sort of per share impact or anything you can give us to think about that?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

I don't have it calculated out on a per share basis, Dan. But just sort of briefly, obviously, currency impacts us. As we've talked about in the expense line, it moves that around a little bit. By and large for the most part, it usually is offset by reserve adjustments. Because essentially, the assets and liabilities are matched in that business. But sometimes, there's breakage between currencies that it doesn't always, to your question, net out to an inconsequential amount. But usually, over 1 quarter or 2, or 2 or 3 quarters, as we've looked back at it, it generally nets out and it's matched. So it's generally our philosophy to keep the currencies matched so they don't have much of an impact on a net basis. So this quarter, we talk about the expense ratio being a little bit higher, a little low, it's lower than it was a year ago. And some of that was offset through reserve adjustments in the quarter, but not all of it. And then lastly, this obviously will affect premium levels as well. But to-date, it hasn't been significant, either.

Operator

[Operator Instructions] Our next question comes from Vincent DeAugustino with KBW.

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

One of the things that we hear about, primarily from some of your competitors, or some of your competitors talking about other competitors, really, is that there's some incremental focus on retention now that profitability is a little bit better on a decent portion of the accounts in their books. And so what I'm curious about, is if we go back to some of the points that you guys have made at the Investor Day, particularly on expanding your share of wallet and the conversation, frankly, about asking for more business that reflects the value that you bring to the agency, has that conversation become any more difficult in light of some of the greater retention efforts from some of your peers?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, it's a great question. So in this part of the cycle, when pricing comes down a little bit, gets less increases, more and more business gets quiet, right? I mean, so what you have is less business that just naturally doesn't go to the market, right? Because just less and less goes to the market. What's different about us, as we talked about, is that because of this limited distribution and this access to information and access to them, we do a lot more what we call pipelining and work with them on profiling their business and understanding what business fits our products and what fits kind of what we would do well. And so for us, what we think is this is going to be a differentiator for the next few quarters, which is what we've seen is we're getting plenty of opportunities across the board. And so we have yet to see really a slowdown of abilities to take a look at things and have conversations. The other thing, obviously, is because of the way we have fewer partners, there's a lot of aligned incentives, the way you think about our compensation and how we work with our guys. So there's an interest to do more with us, and I don't see that slowing down. What you saw a little bit in growth this quarter, just like -- I mentioned this at Investor Day, which is important. We have a couple more quarters left of some of this exposure management and targeted underwriting stuff, and it's roughly $80 million to $100 million this year. So what you saw is just -- that's a little lumpy when some of that occurs. And so it looks like, in a couple of these categories, that it's

4% instead of 6%, but that all stuff is going to come right back. Because underneath the -- if you take out those actions, we have very good momentum in almost all our businesses. The other thing that's interesting on expenses, when we -- the conversation about expense, because of what we do with the pipeline, et cetera, our yield rate is a lot higher than others, which makes it a lot more efficient for us to write new business, which is what's -- which is going to help us a lot, right? Because typically, another thing that happens in this market is that you have less new business out there and most people's yields go lower because there's more people competing for less business. That is not happening for us. I mean, we don't -- what we -- we don't get into auctions a lot. A lot of this is about us being proactive with them about business. So both of those things will help us for the next few quarters. And as long as we keep focused and we execute, we think there's a tremendous amount of opportunity in front of us here.

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

Okay, that's all very helpful. And to your point, just on the rate environment, following Travelers' reported rate deceleration this quarter, the sentiment for the space is, has turned somewhat down. I think you guys' shares got a little beat up by that. And clearly, with the report, you guys have -- you're demonstrating an ability to get higher levels of rate. And so just as we think about that advantage that you have and kind of look further out, I'm just curious if you think the overall market, whether we see stabilization at or slightly above loss cost trends or do you think more deceleration?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, so there's 2 parts to that question, and I'm going to answer both, because I think they're both important. A big part of our strategy has been where we focus, right? So whether it's our specialty businesses or our core businesses, we tend to be in the value-added spaces with lower face value, right? And I would argue that we'd picked purposely some of the areas where we think that rate is more stable than in some of the other categories. And we don't do big broker accounts, we don't do large national property accounts, where that excess capacity in and out affects it. Most of our business is -- got real high entry costs because of the cost to actually deliver it, and all the distribution investment we have. So again, we feel, again, that we're not immune to all the effects of the market, but I'm just saying that we should have a lot more stability in our ability to get above inflation. Now your second point is, is the market stable? I would argue that when you look at the auto trends we talked about and the comp trends and low yield, that what I see, at least in the segments we participate in, and we don't participate in the largest accounts and the broker -- large broker world, I believe there's a lot of reasons why it should stable and it should be stable a little bit above inflation. And so -- because it's needed. And a lot of these categories, as the uncertainty around some of these categories, like comp and auto, are still there. So we -- again, we're only in the markets we're in, but we feel pretty good about the stability of the market and we also feel good about our ability to continue to enhance margins for the foreseeable future. And I -- and so that's kind of our view right now. And I feel pretty confident, at least in our ability, to continue to execute over the next couple of quarters. That's what we see.

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

Good to hear. And then just one last one for David. Sorry if I missed this, but on the workers' comp development, just curious if there were any sort of specific claim activity there or if it was anything more broad-based as far as refinement in assumptions. Just -- it seemed that the development was just a little bit below, kind of average.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, it's really more specific claim-based. It's not a broad-based situation there, Vincent.

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

Okay. Anything from -- I mean, just all higher medical or litigation or anything?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

So on the comp, there literally was a weird -- there was a handful of large things, interesting enough, a couple of them auto-related, comp claims, that were an aberration. We don't -- we had -- it's just they all kind of clustered around this quarter. We hadn't had any in the previous 4 quarters like this. And we don't -- there's nothing in them that's a pattern or anything. So it's -- we feel pretty good about that it's just an aberration of a handful of large losses. Jack, [indiscernible]?

John C. Roche
President of Hanover Agency Markets

Yes, no. I think that's right. I think in the accident year, we had roughly 5 or 6 point higher load, if you will, coming in from some large loss activity. And what you saw is we -- this particular quarter, we had a little less prior year development help than we traditionally have. But I wouldn't read into it in any way. I think we feel good about workers' comp. We feel good about the trends. We feel good about the quality of the book of business. And quite frankly, we're getting some pretty good rate on the book of business, which bodes well for the future.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, we feel pretty good about it.

Operator

Our next question comes from Sarah DeWitt with Barclays.

Sarah Elizabeth DeWitt
Barclays PLC, Research Division

It's been a heavy cat quarter for a lot of the Personal Lines and Commercial Lines insurers, but your cats weren't overly elevated this quarter. Was that more of a function of the cats that hit were in states where you didn't have as large of a presence? Or was it more driven by the exposure actions that you've taken? And if it's the latter, what would the cats this quarter have looked like on your book a few years ago?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, I -- obviously, the cats in this quarter, because they're more tornado, hailstorm kind of events, obviously, the micro geography, at some level, there's always a level of luck of how much business you have in micro concentrations with this kind of event. That said, we do believe that all the work we've done -- because these were Midwest, a lot of Midwest, a lot of Northeast events, and we did very much on our plan. And so we're happy with that. It's hard to quantify that in any precise way. We tried to, at Investor Day, as you know, Sarah, we went through 5 or 6 examples, where we literally went back and showed kind of what we thought the difference is now that we've done what we've done. So we think it's a material thing, but I wouldn't -- I don't have the precision of this. But again, my view is I feel very comfortable with both our cat assumptions and our non-cat weather assumptions in our pricing and in our planning. Because of all this work we've done, I feel we're going to have less volatility around it, and we're going to be better. But I can't really be precise to the number. I -- that's why, I believe, if you go back to the Investor Day and you look at kind of what we tried to model out of historical events, it gives you some feel and guidance about the lack of -- or the less volatility. David, is there any other way to kind of...?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

No, that's what I would have said to do as well, Sarah. And I think Fred has covered it pretty effectively.

Operator

Our next question comes from Larry Greenberg with Janney Capital.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Two questions on Chaucer. The first one, I know you guys brought in a casualty team earlier in the year, late last year, and you're seeing good premium volume there. Can you just remind us what's being written in that book? And then, secondly, are you done with the invested asset shift, basically putting the cash to work from Chaucer's portfolio?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, let me -- I'll take that one first and then Bob can talk about the casualty team and its actions. What you're referring to, Larry, is when we acquired Chaucer back in '11, we talked about remodeling, reinvesting their book. Most of that work has been done, but I would say that was kind of halfway to the ultimate goal. And what we're doing now is we're looking at trying to extend their duration a little bit further. So to just remind you, when the acquisition occurred in '11, they were holding a very, very high level of cash. And what you're referring to is that we invested up that cash in a pretty short duration. I mean, Chaucer's reserve duration is shorter, so we will be a bit shorter in the duration on the Chaucer book. But in our planning and our modeling, we believe there's opportunity to extend the duration a bit further with the right rate environment, and so we're looking at doing some of that as we go forward. If you're looking at the cash position at the end of the quarter, obviously, they probably have a little bit higher cash than they've had, given some of the activities of the quarter, and that will get invested in the third quarter. For example, I mentioned the sale earlier of Antares and some of the other activities in Chaucer. So that's more modest levels. That will have an impact, but not as much as the investment in the portfolio from '11. And then I think Bob can take your [indiscernible].

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Yes, just on the casualty team, we've sort of touched on this before, it's a team of business that's been recognized as market leaders for a number of years. They came from Aspen. We wrote this class of business before, but not to the same extent and not to the same lead position. It's basically U.S. domestic, tends to be smaller-ceding companies and companies we will expect to have relationships over a number of years. The growth that we're seeing -- at the moment, we expected them to migrate some of that business to us, and the pace of that migration of that business has really just accelerated because of the situations that Aspen has found in the market with the hostile takeover discussion. So we know the business. We know the people. They've got a very good market reputation, and we're quite pleased to see that business come to us a little bit quicker.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

And any more specific on what the lines actually are?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Well, it could be a mixture of protecting a standard portfolio, but also some specialty and some professional lines as well. So it's a real mixed portfolio. The trend tends to be smaller-ceding companies, and it's predominantly on an excess of loss basis.

Operator

We have no further questions. I would now turn the call back over to management for closing remarks. Please proceed.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, everybody, for your participation today. We are looking forward to talking to you next quarter.

Operator
This concludes today's conference. You may now disconnect. Have a great day.