S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

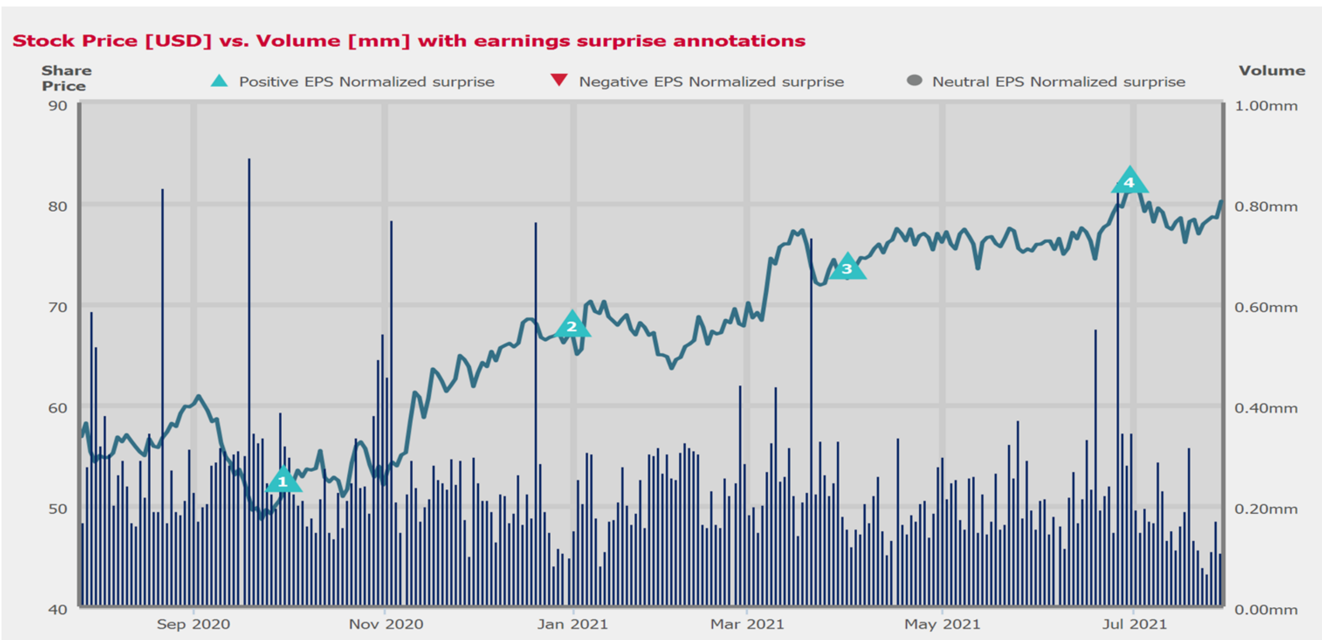
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.26	1.85	▲46.83	1.42	6.29	NA
Revenue (mm)	804.35	840.50	▲4.49	835.37	3324.38	NA

Currency: USD
Consensus as of Jul-29-2021 9:33 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.96	1.06	▲1 9.28 %
FQ4 2020	1.20	1.84	▲2 53.33 %
FQ1 2021	1.03	1.70	▲3 65.05 %
FQ2 2021	1.26	1.85	▲4 46.83 %

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Call Participants

EXECUTIVES

John Joseph Marchioni
CEO, President & Employee Director

Mark Alexander Wilcox
Executive VP & CFO

Rohan Pai
Senior VP of Investor Relations & Treasurer

ANALYSTS

Grace Helen Carter
BofA Securities, Research Division

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Good day, everyone. Welcome to Selective Insurance Group's Second Quarter 2021 Earnings Call.

At this time, for opening remarks and introductions, I would like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai. Thank you. You may begin.

Rohan Pai
Senior VP of Investor Relations & Treasurer

Thanks, and good morning, everyone. We're simulcasting this call on our website, selective.com, and the replay will be available until August 20, 2021.

Our supplemental investor package, which provides GAAP reconciliations of any non-GAAP financial measures referenced today also is available on the Investors page of our website. Today, we will discuss our results and business operations using GAAP financial measures that are also included in our annual, quarterly and current report filed with the U.S. Securities and Exchange Commission and non-GAAP operating income and non-GAAP operating return on common equity, which we use to analyze trends in operations and believe make it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income available to common stockholders, excluding the after-tax impact of net realized gains or losses on investments and unrealized gains or losses on equity securities. Non-GAAP operating return on common equity is measured as non-GAAP operating income divided by average common stockholders' equity.

We also use statements and projections about our future performance. These forward-looking statements under the Private Securities Litigation Reform Act of 1995, are not guarantees of future performance and are subject to risks and uncertainties. For a detailed discussion of these risks and uncertainties, please refer to our annual and quarterly reports filed with the U.S. Securities and Exchange Commission, which includes supplemental disclosures related to the COVID-19 pandemic. You should be aware that Selective undertakes no obligation to update or revise any forward-looking statements.

On today's call are the following members of Selective's executive management team: John Marchioni, President and Chief Executive Officer; and Mark Wilcox, Chief Financial Officer.

Now I'll turn the call over to John.

John Joseph Marchioni
CEO, President & Employee Director

Thank you, Rohan, and good morning. I'll make some introductory comments on the results and then highlight some of the higher level themes impacting the industry and our company. Mark then will discuss our financial results, and I'll return to provide an update on some of our strategic initiatives that position us for sustained financial and operating outperformance. We generated excellent financial results in the second quarter with a 17.1% annualized non-GAAP operating ROE. Both our underwriting and investment operations were strong contributors to the financial results for the quarter. For the first half of the year, our annualized non-GAAP operating ROE of 16.4% was well above our full year operating ROE target of 11%, continuing on our strong track record of excellent results.

Similar to the first quarter, favorable prior year casualty reserve development and strong alternative investment income drove the outperformance, while underlying underwriting and investment performance are in line with our ROE target for the year. For the quarter, our solid net premiums written growth of 12% after adjusting for the prior year COVID '19 related personal and commercial auto credits was driven by overall renewal pure price increases averaging 5.1%, strong new business growth and stable retention rates. Our 89.8% combined ratio for the quarter benefited from moderate catastrophe losses and 2.3 points of favorable prior year casualty reserve development. The underlying combined ratio of 89% reflects our superior underwriting capabilities and the quality of our book of business.

Net investment income after tax totaled $67 million in the quarter, benefiting from the exceptional performance from our alternative investment portfolio. While our alternative investments, particularly private equity, have generated outsized returns so far this year, we expect performance to normalize in the coming quarters.

I'd like to highlight a few key themes. First, our ability to consistently execute on our objectives around profitable growth is a testament to our strong distribution partner relationships, sophisticated and granular pricing capabilities, underwriting tools and superior customer servicing capabilities. We have a unique franchise built on a foundation of customer centricity and operational excellence. While economic researches and strong market pricing are positive tailwinds that have helped our growth, our continued disciplined underwriting and focus on obtaining renewal pure price increases at or above expected loss trends have been equally important. Our sophisticated underwriting tools provide us with a deeper understanding of the profitability and risk characteristics of our book and give us confidence to generate higher growth rates when market opportunities arise.

For the first half of the year, Commercial Lines renewal pure price increases averaged 5.5%, new business was up 8%, and the renewal retention rate was 85%, in line with the year ago period. For smaller Commercial Lines accounts, with policy premium of less than $10,000, renewal pure price increased 0.8% in the first half of the year, while larger accounts in excess of $100,000 in premium generated renewal pure price increases of 6.2%. Across all size cohorts, our highest quality accounts based on future profitability expectations, which constituted 25% of our renewal premiums for the first half of the year, produced 3.1% pure rate and point of renewal retention of 93%.

Our most challenged accounts comprising 11% of our renewal premium, generating 10% pure rate and point of renewal retention of 84%. Our granular approach to understanding risk and administering the appropriate price has allowed us to maintain strong retention while generating loss ratio improvement through an improved mix of business. Second, the lower prolonged interest rate environment is poised to result in a multiyear decline in after-tax book yields on investment portfolios, resulting in reduced contribution of investment income to ROEs.

While alternative investments have been a strong contributor to our overall investment performance during the equity market rally over the past decade, consistently replicating that level of performance will be difficult. Maintaining discipline to deliver higher returns from underwriting will be increasingly important. We are well positioned to do so. From an investment allocation standpoint, we intend to remain conservative, maintaining a high-quality portfolio with adequate liquidity with a goal towards supporting our underwriting operations and strong capital position.

The third key theme is inflation. Current inflationary pressures on the short-tail lines are largely being offset by continued lower-than-expected loss frequencies on those same lines. To the extent these inflationary pressures persist, they will need to be reflected in forward loss trend expectations. This impact could be exacerbated by severe catastrophe losses that create additional demand search for building materials, putting greater stress on supply chains and labor shortages.

Medical CPI, a significant driver of workers' compensation loss trend has remained fairly benign. As courts continue to reopen and backlogs are addressed, we expect social inflation trends to reemerge. Over the longer term, sustained higher-than-expected inflation would need to be factored into how companies build expected trend into our loss picks, a process for which we have always been diligent and transparent. Our disciplined planning process, along with our 10-year track record of obtaining renewal pure price increases at or above loss trend has us well positioned.

Finally, I'd like to highlight that Selective remains in the strongest position in our history from an operating and financial standpoint. We are executing extremely well on our plans to generate consistent and profitable growth. Our strong capital position provides us with the flexibility to invest in the most attractive opportunities.

I'll come back to provide additional commentary, but now I'll turn the call over to Mark to review the results for the quarter.

Mark Alexander Wilcox
Executive VP & CFO

Thank you, John, and good morning. I'll review our consolidated results, discuss our segment operating performance and finish with an update on our capital position and guidance for 2021.

For the second quarter, we reported excellent net income available to common stockholders per diluted share of $1.98 and non-GAAP operating earnings per share of $1.85. We reported an annualized ROE of 18.3% and a non-GAAP operating ROE of 17.1%, with meaningful contributions from both our insurance and investment operations. For the 6 months ended June 30, our annualized non-GAAP operating ROE of 16.4% is well above our 11% target for the year. Overall, we are extremely pleased with our performance so far this year.

Consolidated net premiums written for the second quarter increased 15% compared with a year ago or 12% when adjusted for $19.7 million of COVID-19 related premium credits in the prior year period. The primary drivers of our top line growth was strong renewal pure price increases, solid retention rates and very strong new business growth in outstanding Commercial Lines and E&S segments. Year-to-date, net premiums written have increased 19% or 11% when adjusted the prior year COVID-19 related premium items. We reported an extremely strong consolidated combined ratio of 89.8% for the second quarter. Included in the combined ratio of $22.6 million of catastrophe losses or 3.1 and $17 million of net favorable prior year casualty reserve development or 2.3 points.

On an underlying basis or excluding catastrophes and prior year casualty reserve development, the combined ratio was 89% in the quarter. For the first half of the year, we reported a combined ratio of 89.5% and an underlying combined ratio of 89.4%. Our year-to-date underlying combined ratio of 89.4% compares favorably to our initial 2021 guidance of a 91% underlying combined ratio and reflects better-than-expected noncat property losses and a lower-than-expected expense ratio for the first half of the year.

Moving to expenses. Our expense ratio was 32.7% for the second quarter compared with 34.3% for the prior year period. The year ago expense ratio included 2.2 points of specific COVID-19 related items, including the provisions for bad debt and the earned impact of the COVID-19 related audit premium accrual. Year-to-date, our expense ratio of 32.4% reflects lower-than-expected travel and entertainment, overhead and general and administrative expenses. We expect some of these expenses to start reverting to more normal levels in the second half of the year, putting some upward pressure on the expense ratio. However, we continue to expect ongoing improvement to our expense ratio over the next 2-year period.

Corporate expenses, which are principally comprised of holding company costs and long-term stock compensation totaled $9.1 million in the quarter compared to $6.3 million a year ago. The increase was driven by the strong performance relative to our fair growth as well as an increase in our stock price, both of which impacted the variable component of our long-term incentive-based compensation plan.

Turning to our segments. For the second quarter, Standard Commercial Lines net premiums written increased 16% or 13% when adjusted for the year ago $15.4 million of COVID-19 related commercial auto premium credits. Drivers of Standard Commercial Line step premiums written growth for the second quarter included excellent new business growth of 17%, stable retention of 85% and renewal pure price increases averaging 5.5%. Exposure growth from revised economic activity was also a factor. For the first 6 months, net premiums written increased 22% or 13% when adjusted for the prior year COVID-19 related items.

The Commercial Lines combined ratio was a profitable 88.7% for the second quarter, included 1.9 points of catastrophe losses and 2.5 points of net favorable prior year casualty reserve development. The favorable prior year reserve development consisted of $5 million for workers compensation and $10 million for general liability relating to lower-than-expected claims emergence for accident year 2018 and prior. The underlying combined ratio was a profitable 89.3%.

In our Personal Line segment, we reported flat net premiums written, although premium was down 5% when adjusted for the year ago, $4.3 million of COVID-19 related to personal auto premium credits. Net premiums written trends reflect continued competitive market conditions, particularly for personal auto. Renewal pure price increases averaged 1.1% for the quarter, retention was flat relative to a year ago at 84% and new business was down 8%. The combined ratio in the quarter was a profitable 92.3%, and the underlying combined ratio was a profitable 85.5%.

In our E&S segment, we reported 23% net premiums written growth for the quarter relative to a year ago. Renewal pure price increases averaged 6.9%. New business was up a strong 19% and retention increase. The combined ratio for the segment was 96.6% in the quarter driven by catastrophe losses equating to 9.5 points, which was partially offset by 3 points of net prior year casually favorable reserve development. The underlying combined ratio was a profitable 90.1%.

Moving to Investments. Our investment portfolio remains well positioned. As of quarter end, 91% of our portfolio was invested in fixed income and short-term investments with an average credit rating A plus, and effective duration of 3.9 years and offering a high degree of liquidity. As we have been preempting on recent calls, the decline in the average credit rating of our fixed maturity portfolio to A plus in the quarter from AA minus, reflects the meaningful reduction in our sector allocation to Agency RMBS over the past year as lower interest rates have accelerated prepayments as we had expected.

Given the low, very low reinvestment rates for this asset class, we have reallocated these non-sales disposal cash flows into other high-quality fixed income sectors, including corporate bonds and other ABS courses that do not carry a AAA rating, but in our view, currently offer a better risk and return profile. Risk assets, which include our high-yield allocation contained within fixed income, public equities and limited partnership investments in private equity, private credit and real asset strategies represent 11.6% of our investment portfolio. The increase in our risk assets to 11.6% from 10.4% at year-end was primarily driven by higher valuations.

For the quarter, after tax debt investment income of $67.4 million was up $38.9 million from the year ago period, primarily driven by $24 million of after-tax alternative investment gains compared to $13 million of after-tax alternative investment losses in the comparative quarter. As a reminder, net investment income from alternative investments is reported on a 1 quarter lag. The after-tax yield on the total portfolio was 3.5% for the quarter, delivering a very strong 10.3 points of ROE contribution.

The after-tax yield on the fixed income securities portfolio was 2.6% in the second quarter, which is slightly down from 2.7% in the year ago period. The total return on the portfolio was 1.9% for the quarter, reflecting the strong alternative asset performance as well as a slight pullback in longer-dated benchmark interest rates and a tightening of credit spreads, which increased the value of our fixed income securities. The average after tax new money yields on fixed income purchases during the quarter was 1.8% compared with 2.7% for the year ago period. Strong operating cash flow of $292 million for the first half of the year equated to 18% of net premiums written.

Turning to capital. Our capital position remains extremely strong with $2.9 billion of GAAP equity. Book value per share increased 6% during the first half of the year to $44.78, benefiting from our strong earnings. We have built significant financial flexibility with $505 million of cash and investments at our holding company. Our net premiums written to surplus ratio is slightly below our target range of 1.33x, our debt-to-capital ratio was 16% at June 30. Given our strong capital position, we have the financial flexibility to grow at rates well above our 7% to 9% sustainable growth rate for the foreseeable future, and we continue to find attractive opportunities.

We did not repurchase any shares during the second quarter or subsequent to the quarter end under our $100 million share repurchase program. During the first 6 months of the year, we repurchased approximately 53,000 shares at an average price of $64.49 for a total of $3.4 million. We still have available $96.6 million of remaining capacity under our share repurchase program, which we plan to use opportunistically.

I'll finish with some commentary on our updated outlook for 2021. We now expect the GAAP combined ratio, excluding catastrophe losses of 89%. This is an improvement from our prior guidance of 90% and reflects strong profitability, inclusive of net favorable casualty reserve development in the first half of the year. Our guidance assumes no additional prior accident year casualty reserve development. Our catastrophe loss assumption remains 4 points on the combined ratio. We are now projecting after-tax net investment income of $220 million, including $55 million in after-tax gains from our alternative investments. This is up from our prior guidance of 195 and $31 million respectively, and principally reflects increased year-to-date as well as expected after-tax debt adjustment income from our alternative investments.

We continue to expect an overall effective tax rate of approximately 20.5%, which includes an effective tax rate of 19% for net investment income and 21% for all other items. And weighted average shares remain 60.5 million on a diluted basis.

In summary, we're up to a very strong score in 2021. We are pleased with our year-to-date growth rate of 19% or 11% after adjusting for last year's COVID-19 items and up 16.4% year-to-date operating ROE. While our reported results reflect some nonrecurring benefits, such as higher-than-expected alternative investment income, lower-than-expected cash and favorable reserve development, our underlying results are strong. We are well positioned to continuing -- to continue delivering superior financial results and strong returns to our shareholders over the long term.

With that, I'll turn the call back over to John.

John Joseph Marchioni
CEO, President & Employee Director

Thanks, Mark. We continue to execute on our objective of generating consistent and profitable growth by identifying ways to bring additional value to our customers and our distribution partners. Our long-term goal in Commercial Lines is to increase our market share of 3%, which is predicated on increasing our share of our distribution partners overall premium to 12% and appointing new distribution partners to achieve a 25% agent market share. We seek to augment these initiatives by expanding into new states.

Let me highlight some of our ongoing strategic initiatives. The rollout of our MarketMax tool, which provides our distribution partners with insights into their overall portfolio and identifies target accounts to grow their business with us continues to progress well. MarketMax has currently been deployed in approximately 320 of our distribution partners and is targeted to grow at over 400 by year-end. The tool has seemed strong acceptance among our distribution partners and has been a key contributor to our strong new business growth over the past year. We are still just beginning to realize the full value of this investment.

Our updated small business platform continues to roll out successfully. Our business owners, general liability, automobile, umbrella and cyber lines for eligible small business customers are now available on a new platform. We significantly streamline the quoting and issuance process for eligible accounts and are experiencing a strong increase in small business submissions since the rollout. The business owners line of business, which became available to our agents in the new platform in the fourth quarter of 2020. So new business premium increased from that line by more than 20%.

In Personal lines, we successfully launched our homeowners product changes targeting the mass affluent market at the end of June. This customer base tends to place greater value on coverage and service. And as such, is less price sensitive. Our agents have responded favorably and have already begun submitting more of this business. Later this year, we plan to launch coverage enhancements to our auto product designed to better serve this customer segment.

We saw solid growth in our E&S segment during the second quarter and expect continued strong performance moving forward as we continue to roll out our new agency automation platform that will further enhance our competitive position. Our focus within E&S remains small, lower hazard accounts. This segment continues to benefit from higher pricing and increased deal flow into the nonemitted space.

I also want to highlight our recently published environmental, social and governance report, driving sustainable impact, which lays out how ESG values are embedded in the way we do business and integral to the execution of our long-term priorities. These include understanding and attempting to mitigate the impact of climate change, providing customers with responsive claim services and risk mitigation solutions and developing a highly engaged team of employees and leaders. Enhancing diversity, equity and inclusion is a big part of creating an engaged culture that celebrates creativity, innovation and idea generation, and we seek to increase diversity at all levels of the organization.

By acting in the interest of and providing value to all our stakeholders, we will serve the interest of our shareholders by generating sustained financial outperformance. As we look to the remainder of 2021, I'm extremely pleased with our market position and superior ability to execute. I am confident that we can continue to build on our long-term track record of performance that -- which exceeds our ROE targets.
With that, we'll open the call up for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matt Carletti from JPMC (sic) [JMP Securities].

Matthew John Carletti
JMP Securities LLC, Research Division

John, I appreciated your comments on inflation. And at least my read up is that you have a healthy respect for it. My question is, what's your view of the industry from kind of twofold. One is, do you think others in the industry are kind of taking the inflation that we're seeing seriously? Or do you think some people are treating it more transitory? And then the follow-on to that is, what impact do you think it will have on the longevity of the pricing cycle?

John Joseph Marchioni
CEO, President & Employee Director

Yes. Thanks, Matt. Great question. And I always hesitate to comment too much on the industry. And certainly, we have read the comments and the responses to the questions from a number of peers who have reported to this point. And they all have different perspectives. And I think we'll all confidently see that they've got it factored into their loss picks and factor into reserves. I can only speak to the discipline with which we have always managed loss trends and earned pure rate to offset loss trend in our own portfolio and the discipline we had around that because I think the important part to understand is inflation doesn't just manifest itself and expected loss trend on a go-forward basis, inflation will also manifest itself in some ways in your actual historical loss trends versus what you expected.

And as you know, looking back over at least a decade, we've been not just disciplined around that, but highly transparent to our shareholders and the investor community in terms of how we view loss trends and the pure rate, real pure rate in our loss picks. So that's the first point I would make. I can't speak to whether other companies take the same approach that we do, but we maintain discipline on that.

Now when you think about inflation and the impact on frequency and severity, I think it's important to put it in context. And clearly, for everybody in the industry right now, evaluating frequency and severity trends is complicated by a few different factors. I mean, obviously, one is social inflation and social inflation is one that while it will impact your future loss trend expectations is also going to be seen in your historical loss trends. So when you look back at those prior accident years, what is actual change in frequency and severity versus what you thought it was and is that manifesting itself in higher adverse severity, is it manifesting itself in higher rates of litigation? And then how do you respond to that? And how does that influence your pick for the upcoming year? So that's the first exceptional impact.

Second exceptional impact, which a lot of time has been spent on is COVID-19. And I think there's clearly been a lot of focus around the drop in frequency in 2020 and how that's continued into 2021, albeit at a lower pace, but also the offsetting impact, in some cases, partially maybe more so of some increasing severity that has gone along with that. And that is another exceptional factor that needs to be factored into how companies evaluate. And then the third and more immediate is the economic inflation that everybody is seeing. Although when you break down the component parts of the CPI, you realize that it's largely driven by longer and used cars are the big outlier. So when you see a little bit of upward pressure in other areas.

So there's a number of different pieces there. I think the most immediate one and again, from our perspective, this is always in our line of sight. It's always factored into how we evaluate loss trends and how we update loss trend assumptions. But in terms of the more immediate economic inflation, I think you always want to keep that in context. And when you think about auto physical damage and the severity impact on that particular subline of business, severities have been on the rise in [automobile] for the industry for a while, previously, it was driven by the increased cost of repairing vehicles because of more technology in the vehicles.

And then when you think about the impact of used cars, it's largely on total losses and total losses are a portion and not the overwhelming portion of loss sellers in [automobile], but you also want to think about that short-term impact to severity in the context of lower frequency. So that's the first point. And then with regard to longer and my apologies for going on a little bit longer, but there's a complicated answer to your question. With regard to longer, I think it's important to also keep that in context.

So clearly, that is now manifesting in sell in average severity. And let me talk about home first because in the homeowners line, longer is going to have a bigger impact than it is in Commercial Lines. But longer just a small portion of the loss seller. And when you think about the other big piece, the big driver in CPI relative to home, it's going to be driver. Driver has only been up about 10% in the same time period. So when you put all the pieces together for Personal, for home, let's say, the construction cost index is up about 17%. And then remember that about 20% of the average loss dollar is for nonbuilding related items, extra expense and contents and those sort of things. So it's in there, but it's not as bad as the headline would suggest.

And also, at least for us, when you look at our frequency relative to noncat property, that continues to run a little bit lower than anticipated. So there's an offset there. And then on the Commercial property side, the actual construction cost index is probably closer to 5%, and you've got about 40% of the loss sellers in commercial property that are not building related. So I think that puts in important context around how the headline numbers work their way through.

All that said, property is still aligned in the industry that is running combined ratios well above its risk-adjusted target. That's a line that you never want to look at on an ex-cat basis, you want to look at it on a normalized cat basis. And the other area of discipline that we have, and I can't speak to others, is with regard to insurance to value. So we are constantly updating our coverage A values on the home side and our building values on the property side with an eye towards inflationary costs, and those get factored in and allow you to stay upfront, at least in times of normal inflation. So we're not going to prognosticate if this is transitory or not transitory and really focus more on the diligence and the process we've always had around embedding loss cost changes into our loss picks.

Matthew John Carletti
JMP Securities LLC, Research Division

That's great. Very insightful and really helpful. A quick follow-up, just a numbers answers probably for Mark. The cat losses in standard commercial, do you have those buy lines, I think you've given it in the past between property, commercial auto and BOP?

Mark Alexander Wilcox
Executive VP & CFO

Sure, Matt. So in the quarter, in standard commercial lines, the catastrophe losses were $11.3 million or 1.9 percentage points on the combined ratio of the standard commercial lines, and that's really spread across 3 lines of business. Within commercial property, it's $9.2 million. In commercial auto, it's about $500,000. And in the BOP line is $1.6 million for a total of $11.3 million or again 1.9 points on the combined ratio.

Matthew John Carletti
JMP Securities LLC, Research Division

All right. Great. Congrats on a really nice start to the year.

Operator

Thank you, Matt. Our next question comes from Paul Newsome from Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congratulations in the quarter. I want to add just kind of a big picture question. You're getting rate above what you think not going to what the claims inflation is. What factors should we consider that might keep you from having underwriting margin expansion in 2022 versus '21, just maybe you could think about the pieces that we should be thinking about that might offset or change that embedded underwriting improvements?

John Joseph Marchioni
CEO, President & Employee Director

Yes. So Paul, it's a great question. I do think, in part, it ties back to the discussion we just had relative to loss trend and the impacts on loss trends. And we've tried to stress this, and I know it gets complicated but when you think about a forward loss picks, I think about '21 into '22, it's not just about what is the impact of expected loss trends and what is the impact of expected written rate? That certainly influences your loss pick for the upcoming year, but the equal influence, at least for those of us who have a fairly disciplined and rigorous process around it is looking back over the last 5 accident years and saying, okay, how would each passing quarter has my actual frequency and severity emerged? That's your historical loss trend.

So when you look back and bring all those prior accident years to a fully trended basis based on actual changes in frequency and severity and then bring them to present rates. So what was my earned rate in each of those years, that's your starting point. That starting point could be influenced by social inflation. So to the extent social inflation hit the prior accident years, and therefore, your loss trend in those years is emerging a little worse than expected, either driven by frequency or severity, that is influencing up the pick for your upcoming year before you load on the expected future trend and expected written rate and I think that's the one piece that we're certainly diligent about.

And fortunately, for us, when we look back, the actual trends have been fairly stable with what we've embedded in there, and we've been earning rate at a very consistent basis to offset that trend. For everybody in the industry, that will be a big influence when they do their planning for 2022 on the casualty lines. And I think that's still one area and I'm not prognosticated for us or anybody else, but that is the one, I would say, unknown or the information you would probably would not have from a lot of the companies when you think about rolling forward from this year to next.

Operator

Our next question comes from James Bach from KBW.

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

So I was just wondering on the -- on pricing. Can you give us an idea of your outlook for your trajectory for pricing on the commercial side? I know that it's 5%, 5.1%, it was 5.7% last quarter. Can you give us a sense of is that decelerating? Or kind of where do you see rate increases going from here?

John Joseph Marchioni
CEO, President & Employee Director

Yes. So I mean, obviously, if you look at our performance over the first 2 quarters, it's been relatively stable. And while the market dynamic is an influence on how we manage pricing, we also have taken a very measured approach in terms of understanding our own pricing targets based on our starting point profitability and our expectation of trend, and we're going to manage rate in that context as opposed to just trying to maximize rate in the short-term because the market may or not be conducive. I guess what I would point you to and what -- how we think about this going forward and why we think the current pricing environment is sustainable is what's driving the pricing environment and whether those forces continue to be present when we look forward, and we would argue that they are.

So let me just hit the key ones. So #1 is the low interest rate environment. We don't know where that is. And I think as we try to point out in our prepared comments, while we think we've got a high-quality alternative investment portfolio and it's been generating really strong returns for us. We realize that, that to a certain extent for the entire industry is masking the pressure on the core fixed income portfolios. And when you roll forward the investment income impact from those declining yields, that is something that will put pressure on underwriting margins.

The second piece is, when you think about -- and a number of companies, we would -- not us, but other companies have continued to point to a little bit more volatility in their noncat losses in the more recent quarters. But if you look back over the last couple of years, you've seen higher and elevated and more volatile cat and noncat property, you've got firming reinsurance pricing. And while it may be disappointing for the reinsurers in terms of where they are relative to where they would expect it to be from a pricing perspective, prices are still up, and that has to be factored in. And then loss trends with and without additional inflation continue to be a pressure point.

And as we pointed to, the social inflation trends that were emerging and included in our loss reserve estimates and our loss picks, pre-pandemic, we fully expect to reemerge as the economy reopens. Everybody is dealing with those same drivers, and we think that crops up the pricing environment. Now the other, I think, when you put it all together and think about it, is the starting margins for most of the industry needs improvement. And I realize everybody is reporting really strong results. We tend to focus on the underlying not ex-cat -- underlying with a normal cat look when you think about the starting point.

And when you look at that for many companies in the industry and the industry broadly, there's some loss ratio improvement still necessary. And then the final point I would make would be a lot of the back down in the last couple of quarters in the headline rate number for the industry have been driven by the lines that were really high in terms of rate level. So think high hazard, excess umbrella, specialty lines, C&O, EPL, management liability, that's what's bringing the overall number down. But I think you've seen a little bit more stability in commercial auto, general liability, commercial property in the lines they make up our portfolio.

James Paul Bach
Keefe, Bruyette, & Woods, Inc., Research Division

Perfect. And then just -- you mentioned some -- I think Mark mentioned some expense ratio improvement outside of the temporary COVID savings. Can you comment on that sort of map out what the expense savings strategies are moving forward?

Mark Alexander Wilcox
Executive VP & CFO

Yes. Certainly. So when we went into 2021, we put forth our expectations for the full year after the combined ratio, which was a 91% underlying combined ratio. And embedded within that guidance, we talked about 40 basis points of expense ratio improvement. And that was off an adjusted 2020 expense ratio. As you know, 2020 had a number of COVID-19 items. It was 33.8% on a reported basis, but adjusted for the pluses and minuses, it was really a 33.4%. So our expectation going into 2021, was for a 33 expense ratio, 80 basis points of actual improvement or 40% on an underlying basis. Year-to-date, we're at 32.4%, so about 60 basis points of improvement versus expectations.

And really, a couple of drivers there. It really is our travel and entertainment. We had expected T&E to be a little bit lower-than-expected in the first half of the year than the run rate, but it's actually come in less than expected. And then we have just some overall general and overhead items that have come in as low expected. And that includes things like rent, stationary, supplies, consulting fees, audit fees and things like that, that's benefited the expense ratio. We expect some of those items to perhaps revert back to more normal levels, so maybe a little bit of upward pressure on the expense ratio, getting us back to more at the expected level for the full year 2021. But coming into 2022 and into 2023, we do have a plan in place, line of sight and a path to continuing to be more efficient as a company. And that will be reflected in as an expense ratio that we expect to be able to bring down.

We've talked in the past about an appropriate expense ratio for our company, for our mix of business as we stand today of around 32. And we think there's a [followup] way to get there by the end of next year going into 2023. So that's sort of how we're thinking about the overall expense ratio.

Operator

Our next question comes from Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

Thinking about the recent increases in severity and personal lines. I was wondering where the pricing outlook is today versus when you'll originally started thinking about the transition towards the mass affluent book? And as we kind of wait to see how these current severity trends play out, if there's any impact on your growth appetite or the expected speed of the rollout or uptake in the meantime?

John Joseph Marchioni
CEO, President & Employee Director

Yes. Sure. And I don't know that our view has changed at all. I mean, honestly, when you look at what we're seeing in our own portfolio, and again, we've always talked about the frequency drop in auto, and it was certainly higher on the personal side than it was on a commercial side, but even the pick up in severity offsetting that was a lot more pronounced on the commercial auto side than it wasn't the personal auto site. So I don't -- we don't have anything in our data suggesting that there's been a significant shift from a severity perspective.

And of course, in a lot of -- with regard to the pricing environment, I'm actually surprised that the pricing actions were as dramatic as they were in the middle of COVID. So rather than providing the auto credits that were deemed to be appropriate, the notion of significantly adjusting your base rate on a go-forward basis, assuming some combinant shift in frequency and severity, I think, is what caught some of the market participants. Sure. We didn't do that. We kept our auto pricing relatively flat. And it hurt a competitive position in the near term. I think our expectation is that the more recent results now are starting to put some upward pressure on personal auto pricing, and we think that will start to make its way through the marketplace.

But again, we're moving into a segment of business that we think is not as price sensitive. And certainly, home is as big of a consideration in that account decision-making as auto is and where we think about it more on a package basis. So that's how we think about the market going forward.

Grace Helen Carter
BofA Securities, Research Division

Okay. And then I had a quick one on standard commercial. We've heard a lot of peers talk about elevated property losses in the quarter. But if I look at as noncat property losses in standard commercial, they don't look particularly out of line with recent quarters. So I was just wondering to the extent which you all saw that as well? Or if you didn't -- if there's anything particular about the makeup of your book that helps you avoid that?

John Joseph Marchioni
CEO, President & Employee Director

No. Our noncat property relative to our own expectations, has been a little bit better-than-expected for the first half of the year. When you compare it to the prior year, last year was an exceptionally like noncat property year. But when we think about our normal run rate, we're a little bit better-than-expected on noncat properties from a frequency driven. And I mentioned earlier in the response to the question around inflationary impacts, some of those on the property side are impacting severity a little bit. But in our portfolio, there's an offsetting frequency benefit. We put them all together, we're a little bit better-than-expected on noncat property.

Operator

Our next question comes from Scott Heleniak from RBC Capital Market.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Most of the questions have been answered, but I just had a couple of real quick. Is there any way you could quantify what the -- I'm assuming -- I think you mentioned it was a benefit of premium audit exposure units. Is there any way you can quantify what kind of impact that was in the second quarter on growth versus the past few quarters? And I would imagine that most of that benefit will be kind of in the second half and into next year. But wondering if you are able to talk a little more on that.

John Joseph Marchioni
CEO, President & Employee Director

Yes. So let me try to answer this for you. So generally speaking, from our perspective, the best way for us to think about exposure change because there are different pieces that will move around in there that some companies consider exposure or others might not. We just look at the difference between the total premium change on our renewal book and the pure rate change. And in the quarter, that was about 2.7 points -- 2.7%. And then when you think about that in the overall portfolio. So that renewal business is about 81% of the premium in the quarter. So assuming a little over 2 points of the growth in the quarter would have been attributable to exposure change.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's definitely helpful. And then I wanted to switch over to the share buybacks, you were active in share buybacks in Q1 and you weren't in Q2. So I wonder if you could just provide just your thoughts on your appetite, how you're thinking about buybacks at current levels? And obviously, the market is still attractive and you're running a lot of business, but I'm just wondering how buybacks might be factored in and come into play as you look for the rest of the year?

Mark Alexander Wilcox
Executive VP & CFO

Sure. Scott, this is Mark. We put the buyback program in place back in December. And as we mentioned, it's an opportunistic share buyback program. We're right now seeing very attractive opportunities to grow our business. And you've seen the growth rate is significantly above where we've been for the last number of years. And so for us, the strong profitability we're generating the capital that we're generating, the best use of capital is just to put it back into the business and grow our core operations because it's very attractive returns for our shareholders.

When we think about the buyback program, it is going to be opportunistic. We would like to deploy it over a period of time, but we'll be patient and judicious and look for an opportunity to enter the market to execute the buyback program. We don't have a budget per se or plan to execute over a set number of quarters that it really is opportunistic.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. And I guess the last question I had was just on E&S, it sounds like you had good momentum, premium there, and it sounds like you have good momentum going into the second half of the year. And you mentioned a new platform. And so some of this just expanding with distribution partners. And if you can talk more on that in terms of -- obviously, there's a lot more risk going to E&S than standard. But can you talk about how much of that is just is kind of organic expansion through distribution? And where you see that playing out into 2022?

John Joseph Marchioni
CEO, President & Employee Director

Yes. It's all organic through distribution. We occasionally will add a new distribution partner, but we've just seen a lot more submission activity coming through in the United States. And that's really driving the increase. The reference to the automation platform is that pretty -- we talked a lot and other market participants talk a lot about small business platform enhancements, which as we mentioned, we're rolling out. For E&S, we're rolling out something very similar, which is a full quote rate and buying system for the small E&S business, which we think will really enhance our competitive positioning with those wholesalers as that continues to roll out through the balance of this year and into early next year.

So we like the position in the market and the market is benefiting from strong rate, as you saw, our rate level of just under 7% in the quarter in E&S, but also pretty strong submission flow. But if the profile of the business we're writing is very similar to the profile of our book. It's that small binding authority business, casualty driven to more contractors, habitational, those types of accounts.

Operator

Speakers, we do not have any questions in queue. [Operator Instructions]

John Joseph Marchioni
CEO, President & Employee Director

Great. Well, thank you. There's no further questions. We appreciate all your time this morning. And as always, please call off or roll on with any additional questions. Thank you.

Operator
That concludes today's conference. Thank you, everyone, for joining. You may now disconnect.