S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

FQ1 2014 Earnings Call Transcripts

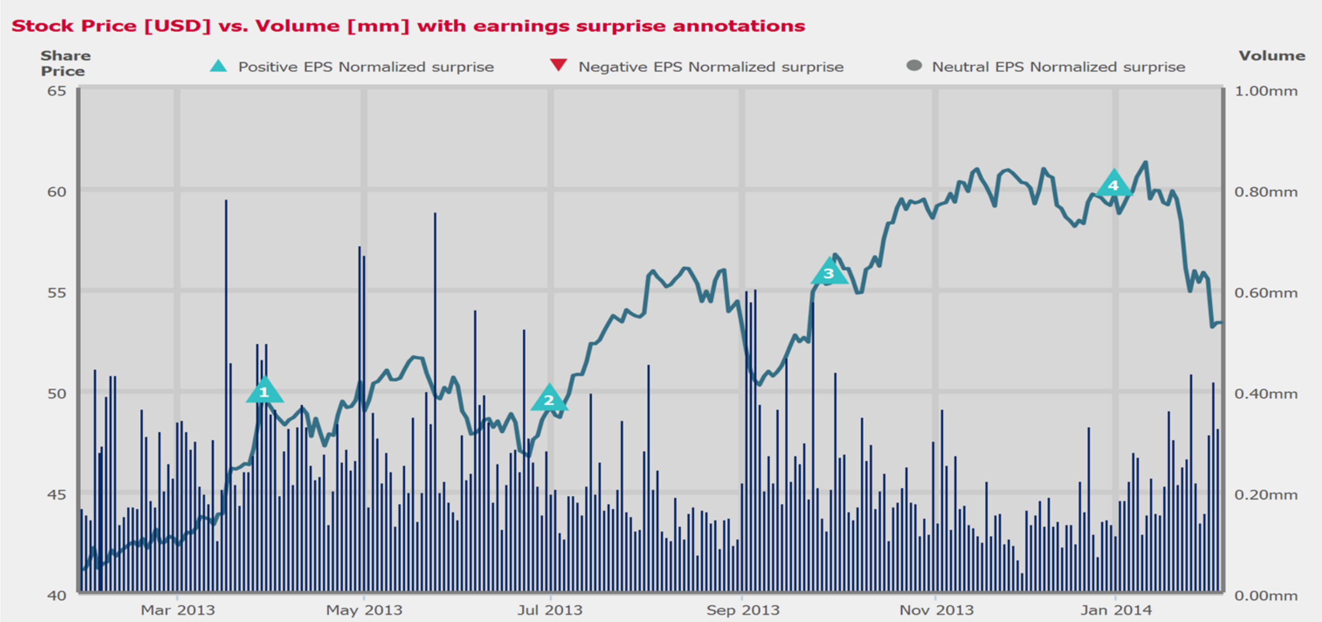
Wednesday, April 30, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.94	1.05	▲11.70	1.22	4.91	5.43
Revenue (mm)	1140.07	1172.30	▲2.83	1266.93	4867.93	5064.55

Currency: USD

Consensus as of Apr-30-2014 2:22 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	1.05	1.32	▲1 25.71 %
FQ2 2013	0.71	1.05	▲2 47.89 %
FQ3 2013	1.04	1.36	▲3 30.77 %
FQ4 2013	1.08	1.33	▲4 23.15 %

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
Former Senior Vice President and President of Personal Lines

Oksana Lukasheva
Vice President of Investor Relations

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

ANALYSTS

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2014 The Hanover Insurance Group Inc. Earnings Conference Call. My name is Kim, and I will be your operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Ms. Oksana Lukasheva, Vice President, Investor Relations. Please proceed.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, Kim. Good morning, and thank you for joining us for our first 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 Jack Roche, President of Business Insurance; Andrew Robinson, President of Specialty Line; Mark Desrochers, President of Personal Line; 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 supplements and a complete slide presentation for today's call are available in the Investors section of our website at www.hanover.com.

After the presentation, we will answer questions in the Q&A session. Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements, including our 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, conference call. We caution you with respect to reliance on forward-looking statements, and in this respect, refer you to the forward-looking statement 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, operating income per share, x cat loss and combined ratio, and accident share loss and combined ratio, 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

Good morning, everyone, and thank you for joining our first quarter earnings call. Overall, we were very pleased with our first quarter results, which reflect the progress we are making across our organization. Net income per share was $1.22 for the first quarter, operating income per share was $1.05, which translates to annualized operating ROE of 8% and includes the elevated catastrophe and non-catastrophe losses caused by severe weather conditions in the U.S. this past winter.

Importantly, we made solid progress on our strategic priorities for the first 3 months. And we believe we are well positioned to deliver improvement in the combined ratio, excluding cats, we outlined in our last call, as well as generate mid-single-digit net written premium growth for the year. We continue to see encouraging trends across our businesses, both around underlying -- underwriting results and growth momentum, led by accelerating premium in Commercial Lines. We increased our x catastrophe earnings by 15% in the quarter to $143 million before taxes and also increased net premiums written by 9%.

I will now turn the call over to David to review our financials. After that, I will come back to discuss our strategic priorities and our outlook.

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

Thank you, Fred, and good morning, everyone. Our first quarter results were solid and mark an encouraging beginning to 2014. Although our earnings this quarter were impacted by catastrophe and non-catastrophe weather due to severe cold and heavy snowfall in the U.S. in January and February, the underlying earnings power of our company continues to strengthen.

Net income was $55 million or $1.22 per diluted share compared to $66 million or $1.46 per diluted share in the prior year quarter. Operating income was $47 million in the quarter or $1.05 per diluted share compared to $60 million or $1.32 per diluted share in the first quarter of last year.

Our combined ratio of 98% this quarter compared to 96% in the prior year quarter. Catastrophe losses added 5 points to the combined ratio compared to 2 points in the prior year quarter. This was partially offset by 1 point higher favorable loss reserve development, leaving the x cat accident year combined ratio in line with the prior year quarter even including the elevated non-catastrophe weather this quarter.

Starting with catastrophe activity, losses in the quarter were $58 million or 5% of the combined ratio, all of it coming from our domestic business. Losses primarily stemmed from prolonged low temperatures and heavy snowfalls in many areas, which resulted in roof collapses, frozen pipes, ice dams and other water-related damage. Chaucer, on the other hand, had virtually no catastrophe losses in the quarter, helping to partially mitigate the impact of the elevated weather in the U.S.

Moving on to the accident year loss ratios, excluding catastrophe losses. In our domestic business, the loss ratio improved to 62% from 63%. In Commercial Lines, the improvement of about 2 points was driven by better loss experience in CMP and other Commercial Lines. Higher margins in CMP were driven by mix management and pricing initiatives.

Other Commercial Lines, which incorporates our specialty businesses, including surety and professional products, among others, improved by about 3.5 points over the prior year quarter, driven by previous and ongoing mix management and pricing actions. We are pleased these initiatives are driving increased margins as expected. We believe there'll be continued improvement throughout the rest of the year aided by business maturation and sustainable organic growth.

Looking at commercial auto, we continue to maintain a cautious approach to this line, given our own experience, as well as continuing BI severity trends in the industry. We feel good about the actions we're taking in both our re-underwriting efforts, as well as pricing, where we achieved 9 points of pricing increases this quarter.

In Personal Lines, we generated a 66% underlying loss ratio for the quarter compared to nearly 65% in the first quarter of 2013. Incremental non-catastrophe weather losses accounted for over 2 points of the loss ratio increase in the current quarter.

Given our geographic footprint, non-catastrophe weather-related losses in the Northeast and Midwest are not unexpected during the first quarter, but this quarter was somewhat elevated over expectations. An unusually tough winter drove a substantial uptick in home and auto property claims.

Weather aside, we saw considerable improvement in the accident year loss ratio in personal auto, which was driven by pricing and mix management actions. We also experienced modest favorable prior year loss reserve development, but continue to maintain a sharp focus on this line due to the severity trends experienced in recent quarters. Homeowners' results were impacted by both non-catastrophe weather, as well as a higher incidence of fire losses, which we partially attribute to the unusually cold winter.

Moving on, expenses in our domestic business were essentially flat quarter-over-quarter. The quarter yielded a positive shift in our Commercial Lines expense ratio, which improved by 1.2 points over the first quarter of 2013. Increased premium volume and operating efficiencies drove the improvement. This notable decline in the ratio is consistent with our target of a 1 point improvement in Commercial Lines for 2014 that we discussed on our last call.

Once again, Chaucer delivered a strong performance this quarter, resulting in a combined ratio of 88% compared to 87% in the prior year quarter. The segment's performance exceeded expectations due to negligible current period catastrophe losses. Chaucer's expense ratio was 35% for the quarter, which was below our long-term expectations for this business, primarily driven down by foreign exchange fluctuations this quarter.

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

Turning now to top line growth. Net written premium growth in all segments for the quarter was 9%, driven by 12% growth in Commercial Lines and 25% growth in Chaucer, partially offset by a 7% decrease in Personal Lines. Chaucer growth this quarter was considerably higher than our full year expectation. The premium growth was attributed to quarterly seasonality, an increase in syndicate participation, as well as a benefit due to foreign exchange.

Also, as you recall, we hired a market-leading casualty underwriting team that joined us in late 2013. This business, which has a strong January 1 renewal profile, contributed meaningfully to the first quarter growth. Given the overall market environment, we continue to expect Chaucer to produce only modest overall growth in 2014.

Despite the impact of weather, we're pleased with the underwriting progress we're seeing in each of our businesses. We remain focused on our strategic initiatives in all areas of our business with a goal of generating margin improvement and targeted returns going forward.

Turning to investment results. At March 31, cash and invested assets were $8.2 billion, with fixed income securities and cash representing 91% of the total. Over 94% of our fixed income portfolio is investment-grade, and the average portfolio duration is 4.1 years. The portfolio remains high quality and well laddered.

Net investment income this quarter was $67 million, more or less in line with the prior year quarter. The low rate environment continues to put pressure on investment income, though positive operating cash flows have worked to offset this negative impact, to some extent.

The earned yield on our fixed maturity portfolio was 3.79% in the quarter compared to 4.03% in the prior year quarter and 3.86% in the fourth quarter of 2013. We continue to balance the pressure from lower interest rates by opportunistically investing in higher-yielding classes. However, we estimate net investment income will decline by approximately 2% in 2014 before it starts to pick up in 2015.

I'll finish up with a few comments on the strength of our balance sheet and capital position. Book value per share was $61.24, up 3% in the first quarter of 2014. Our total capitalization reached $3.6 billion, and outstanding debt was $904 million at quarter end, translating to a 25% debt-to-capital ratio. Statutory capital in our domestic business grew to $1.9 billion in the quarter.

We will continue to look at ways to optimize our capital structure and use share repurchases as opportunities arise. The strength of our balance sheet and our stable reserving position provide a strong base on which to grow our business.

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

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

Thanks, David. With a solid start to the year, we feel good about our prospects for 2014, as well as the next year. We remain focused on improving the earnings capacity of our organization through underwriting execution and by expanding the market position of our franchise. We're able to advance in both areas this quarter.

On the underwriting front, we continue to make good progress. First, in Commercial Lines, we are pleased with the loss ratio improvement in virtually all our lines. Our results in specialty improved meaningfully during the quarter. We believe the surety legacy issues are substantially behind us, and we are trending positively in our key specialty lines as the business matures.

We also saw good improvement across our core Commercial Lines, though we remain focused on the challenge in commercial auto. We, like the industry in general, clearly have some more work to do. With the underwriting and pricing actions we are taking, though, I am confident in our ability to manage this line and drive it to target returns.

However, as David mentioned, I think it's appropriate for us to continue to take a cautious view. Commercial Lines results have also been enhanced by the decline in the expense ratio, which is a function of our business growth and increased operational efficiency.

Second, as David mentioned, we are getting good traction in Personal Lines profitability, driven by mix management and pricing. The margins we are generating and the overall quality of our account-focused book validates our portfolio actions in the segment. As we move through the year, we believe we can achieve more improvement in this segment.

And finally, Chaucer is off to a very strong start in 2014. Although results in this business can be uneven, we are confident in the quality of our Lloyd's platform, as evidenced by the long string of solid quarterly earnings since we acquired the company in 2011.

Speaking to the matter of our business momentum. I'd first like to begin with Commercial Lines. The growth we are seeing in this segment after having completed most of our exposure management initiatives is very encouraging. The robust premium increase of 12%, with 83% retention and continued solid pricing, supports our view that our targeted underwriting and pricing actions did not result in a loss of growth momentum.

Pricing has continued to be strong with overall increases of 8% in core Commercial Lines. Amongst our specialty businesses, pricing remained in the mid-single digits. Increases in Small Commercial business remain near fourth quarter levels, while middle market pricing slowed somewhat in the quarter. We continue to differentiate our pricing across the business and obtain higher rate increases in the areas that need it most. We believe industry rate increases will continue to moderate going forward, in particular, in the large accounts and, to some extent, in middle market. We expect price increases to slow down gradually in our book, but will remain above loss cost for the foreseeable future.

In addition, our thoughtful approach to rate also helps us drive premium growth as it causes less disruption for our agents, while maintaining accurate, appropriate pricing for the risks we write. As a result, our Commercial Lines retention is very strong, and in combination with mix improvement, indicates that we are achieving the right balance in the pricing retention equation.

Our strong growth momentum also is evident in the substantial new business accretion we have experienced for the last several quarters, particularly in Small Commercial, enabled by our partnership distribution strategy. This strategy helps us to better align our interests with those of our agents, while we remain committed to our value proposition, seizing opportunities created by numerous disruptions in the marketplace and growing profitability with our selective agency base. In addition to our core Commercial Lines growth, we continue to benefit from robust growth in our specialty lines, as these businesses continue to mature and gain further penetration of our partner agents.

Turning to Personal Lines growth levers. The premium decline this quarter reflects the expected effects of ongoing exposure management actions. While they have suppressed our growth in recent quarters, these initiatives are driving the improvements in geographic mix, quality and proportion of account business that we set out to achieve. Additionally, this helps us reduce some of the volatility that comes with weather. The impact of these actions on growth will diminish as we progress through 2014 and will be substantially completed before we enter 2015.

Setting aside our target exposure management, premium growth in Personal Lines was flat. Our operating metrics, including an increase in new business volume, gives us confidence in a return to growth in the second half of 2014 as our actions get closer to completion.

Pricing remained robust at 6% in auto and 8% in homeowners this quarter, although we expect this will gradually level off throughout the year. Our improving underlying retention, our meaningful shift to account business, supported by our product enhancements in our platinum product launch makes us confident in the future growth opportunity for our Personal Lines business.

Overall, the ability to grow our domestic businesses revolves around the strength and depth of our relationships we've lost with our partner agents. We ensure that the business we write is mutually beneficial to both us and our distributors. The investments we made in our business platforms and our national network of underwriters is creating robust and unique positions, with 1,500 of the strongest and most sophisticated agents in the U.S. and has yielded substantial potential with these agents as we build preferred shelf space.

Shifting now to Chaucer. Growth prospects -- excuse me, Chaucer's growth prospects. I'd like to lead off by saying that we are very satisfied with the position we hold in the market today. Clearly, their Lloyd's business environment remains challenging, and we are being very targeted in our approach to the market. We believe that the strength and distinctiveness of our position at Lloyd's allows us to manage our response to the headwinds in the market very effectively. We maintain our focus on the business where we have distinctive leadership positions, and where we have greater access to attractive opportunities, such as political risk and trade credit. Our broad and well-diversified portfolio provides us a large spectrum of flexibility.

This said, despite the 25% net premium increases to the quarter, our outlook for Chaucer growth for the full year has not changed materially from the mid-single-digit increase we discussed at the beginning of the year.

To summarize, with continued solid underwriting and growth anticipated in most of our businesses, we believe we are well positioned to drive healthy returns in 2014 and beyond. Our initial 2014 guidance was for a 96 to 97 combined ratio, including roughly 5 points of catastrophe losses.

We remain confident in our ability to deliver underwriting performance within this range, and we are still expecting to achieve operating earnings in the range of $4.80 to $5.20 per share for the year. However, given the magnitude of domestic weather losses this quarter, there's a greater likelihood that we will exceed our full year weather assumption, which drives full year earnings to the lower end of our guidance.

Looking ahead to the remainder of the year, we will continue to be focused on our main priorities, which are to complete our portfolio management and target underwriting actions; second, to maintain our focus on strong pricing above loss cost inflation and continue to capture attractive market opportunities with our partners. We remain focused on improving our underwriting results, delivering on our return goals and creating shareholder value.

Before I turn the call over for questions, I would like to remind you that we are planning to hold our Investor Day meeting on Thursday, June 12, in New York City. At the meeting, we will address our path to increased profitability through growth and margin improvement and update you on our strategic priorities and our unique approach to the market.

We plan to start the presentations at 8:30 a.m., which will be followed by a Q&A and an informal lunch with the presenters, and our executive leadership team will be available. We will distribute invitations to this event in the coming weeks.
Operator, can you please open the lines for questions?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Larry Greenberg from Janney Capital.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Fred, you mentioned the challenges at Lloyd's these days. I'm just wondering if you could elaborate a little bit on that, and perhaps touch on the motor market, which seems pretty intensely competitive these days?

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

Yes. I'm going to have to hand this over to Bob. But let me first -- in general, as you know, the reason Chaucer was such a good fit for us is that Chaucer was really a portfolio of specialty positions, with a majority of the positions they've [indiscernible] market. While the pricing is a challenge -- it's a challenging pricing market [indiscernible] right now, we have a lot of opportunity kind of to be focused and target opportunities. And I feel pretty solid about our ability to hit our target returns and kind of have the kind of growth we said, which is quite moderate. So I feel pretty good about it. On the auto side, if you recall, we are in kind of a specialty auto business. We're not really in kind of the young driver or the broad market. And so, our profile is a tad bit different and, therefore, we're able to sustain the margins pretty well. But Bob, I'd love for you to give some color to that, if you would.

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Yes, sure, Fred. I mean, it goes without saying that they are tough market conditions, and it's across most classes of business that we underwrite, and that's really around rate levels. But the diversification of portfolio helps us. Also, what helps us is the quality of the team of underwriters that we've got and their experience of trading within those market conditions before. They've seen soft market cycles before. Turning to the U.K., I'd sort of echo Fred's comments, the main reductions that you've seen in U.K. motor have been driven by younger driver prices. This also have been driven by our competitors anticipating quite large benefits coming from legislative changes, particularly around the LASPO, which is a change in the legal aid and support. Our own views, at that time, were that the benefits weren't going to be as great. We didn't take as big a rate reduction as some of our competitors, and we saw volume decrease in 2013 because of that. We've seen that sort of continue in the first quarter 2014, but there are some signs now that competitors are putting inflationary rate increases and these are sticking. So we're seeing retention uptick slightly within the last few weeks of trading. So it has been a pretty bleak picture. Our portfolio has helped us because it is specialty, but we are seeing some sort of better opportunities now.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Great. And David, I think you mentioned you had 2 -- about 2 points of non-cat weather in Personal Lines. If you mentioned a number on -- for Commercial Lines, I missed it. Did you give a number on Commercial?

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

Larry, no. I didn't give you a number on commercial, because non-cat weather in Commercial, really, was negligible from the standpoint of our results. It was really more of the cat events.

Operator

Your next question comes from the line of Vincent DeAugustino from KBW.

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

So sort of a loaded question here, but there's been a good deal of heavy lifting done and some of the margin expansion already in the pipeline from the maturation of the portfolio changes, rate actions and so one of the things I've spent a lot more time thinking about, with all the progress here is what's incremental and where are the next steps and where is most of the earnings growth going to come from, if we're looking further out? And so, one of the questions would kind of lead you to wonder what the opportunities are as far as geographic and product expansions that would be incremental to the current earnings trajectory? And so with that backdrop, and Fred, you'd mentioned with the Investor Day coming up, I'm sort of just hoping to get a preview for whether we should think about that venue as recapping some of the existing pipeline for margin expansion? Or if we should think about that as potentially being a discussion on things that would be incremental in the back half of '14 and into 2015?

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

Yes. I think that's a great question. I think it's both, right? So we still have a lot of opportunity on the margin side, because both our mix improvement. If you look at the -- as we changed the mix of the business and the quality of the business, there's an upside from that. There's still upside from pricing that we're getting and earning in. Most of the underwriting work is going to be behind us, as far as the mass -- the change, the big changes in exposure. But we still have quite a bit of opportunity, as I see it, in the margin. And on top of that, what you're seeing now is we have really good momentum. The quality of our new business is the best it's ever been. Our partnership strategy is really kind of showing up, so our yield on submissions is way up. So what's happening now in this transition market, the breadth of our capability, the attractiveness of the pricing of the new business and our position with our agents creates additional opportunity on top of just the margin expansion, as we grow in the more attractive places, and we leverage our infrastructure. Because as you know, we also have some investments that we've made in some of these businesses. And so you can imagine the leverage we're going to get as some of these newer offices or newer lines leverage the opportunity that we're seeing. So I feel pretty good about kind of all the variables that we've talked about. And again, we need to, right, we need improvement this year and we need to show continued improvement next year to really reach our goals. But our confidence is pretty good, and we'll use that session to kind of try to lay out what we see unfolding over the next couple of years.

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

Good. Looking forward to that. And then just maybe a bit of a harebrained question. But at this point, looking out to 2014, maybe something in the neighborhood of 30% to 40% of pretax earnings are probably going to come from Chaucer. And what I'm sort of wondering is with the intricacies of interactional tax code, if there'd ever be any opportunity or benefit to re-domicile to the U.K., and so could you, a, do it mechanically speaking, b, would it be worthwhile and c, would you ever have an appetite to do it?

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

Thanks for that loaded question, Vincent. Obviously, we look at ways in which we can manage our tax exposure and tax expense. I mean, taking a domicile out of the U.S. is a very complicated process. I would say, as we grow our business and look at how we expand, we, obviously, always think about that. But at this point, there's really no plan or no intention for us to undertake a transaction like that.

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

Okay. Sounds good. Just looking at the list here, just a few other quick ones and I'll re-queue. If we go back a year or so ago, maybe even 2 years, one of the things we've heard more about is how some of the larger national players were maybe taking rate up without much regard to account specific factors and how that was giving companies like Hanover a lot of opportunity for profitable new business growth. And it appears that Commercial Lines' new business growth is still doing quite well. But if I kind of look at some of these larger players now, particularly in the standard Commercial Lines market, that's where we're seeing most of the pricing deterioration for the industry. And so what I'm wondering is, is whether that benefit 2 years ago might be turning into a headwind as we work later into 2014 on new business growth? So I'm just curious if you're seeing any of that or would expect it...

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

So this is the beauty of our strategy. So in the beginning of the turn, right, where there's -- what I would say is a lot more bad business hit the market, where there's a lot more outsized rate increases, what you see is there's a lot of flow, and so a lot of people can take advantage of it, regardless of their strategy or their relationships with their agents and, frankly, some of that's good, some of that's bad. For us, that just means a lot of weeding through to get to the better. What has happened now is with the rate increases moderating, less business China goes out to the marketplace. And I would argue, more consistency in the quality of the business goes out to the marketplace. And so, for us, given our limited distribution and that real connectivity in what we call pipelining activity, this allows us in fewer submissions to have a much greater hit rate as they share shift to us, and we match up well against our product portfolio. So for us, we like this kind of transitional market, because it differentiates those that have real line of sight and insight into the business that are in the distribution channel and those that are just receiving phone calls from a broad distribution. So we believe that this is a great time for us. I don't know, Jack, if there's any observations you'd make about the market, that would be helpful here.

John C. Roche
President of Hanover Agency Markets

No. I think you're right on. I think what we see is that we're getting a bigger percentage of higher quality opportunities because of less disruptive behavior, if you will, in the re-underwriting process. So it's all -- the submission activity isn't necessarily going up, but the ability to get higher quality business because the account managers and placers within agencies have more time to address quality accounts that are looking for some type of pricing consideration. So that's, I think, working to our favor, because we're not having to sift through the piles quite as aggressively. Our yield rates are going up as we see some better business. And we also remind ourselves that pricing today, on new business, is a lot better than it was 2 years ago, and it's a lot better than it's going to be 2 years from now. And the difference between new business pricing and renewals still is at a very tolerable level. So we remind ourselves, as long as we're focused on high-quality business and we're diligent about managing that, this is a time when you would like to see some real robust new business growth, as long as you have confidence in your underwriting capability.

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

And again, the other thing about us is our small commercial strategy, which has a lot more coverage between the $25,000 to $50,000 account with distributed underwriters in a more holistic view, has been able to take advantage of some disruption as others have commoditized that business a little bit and been more narrow in their ability. So a lot of things are coming together right now that we think set up well for us, as we just stay focused on execution.

Operator

[Operator Instructions] Your next question comes from the line of Bijan Moazami.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Bijan Moazami, Guggenheim. I had a question on each one of your business lines. Let's start with Chaucer. Lots of premium volume growth. Could you tell us a little bit more about these casualty people you hired?

Who are they? What's their track record? How you're paying them? And what are they writing? Pretty long-tailed business or shorter-tailed casualty? And then a follow-up on Commercial and Personal Lines.

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

Bob, you want to take that?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Yes. It's a team of people that we brought. They joined us at the back end of last year from Aspen. They've got extensive experience in this class of business writing for a number of years and, at their peak, were writing a portfolio of approximately $300 million of income. We've got a relatively modest budget in for them in 2014. And hopefully, that will enable them to pick some of the best accounts for the portfolio that they were experiencing before. The type of business they write, they're writing predominately specialties lines businesses, reinsurance of them across a wide range. That's quite a diverse portfolio, not a lot of general casualty, more specific. And they form part of the underwriting team here. It's a separate division within Chaucer.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Okay. On marine and aviation, you picked up a fair amount of volume. What's the story there? And by the way, was there any further impact from [indiscernible] and quota share on the quarter?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Yes. That was some of the impact, as we've said earlier, some of that's starting to earn its way through. And actually from marine and aviation, although it went up in the quarter, there was no one particular area where we saw it. It was more taking opportunities across a number of lines. So it wasn't, as we've mentioned in casualty, there wasn't one area that saw a massive increase. But there still are pockets of opportunity that the underwriters will take, and the 1st of January renewal season [indiscernible] 10% post.

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

In the broader point, Bijan, going back to it is that this isn't about a 25% growth rate for Chaucer. It's a lot about timing of some of the opportunities and so therefore, it will moderate through the year, if we're talking about mid-single-digit growth, so perfect timing in the year.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Okay. Great. On Commercial Line segment, 8 points of price increase, only 1.6 points of improvement in loss ratio, and there's not a whole lot of non-weather cat -- or weather -- non-catastrophe weather, if you will. So the question is that, is there a change in the reserving philosophy? Are you guys becoming more conservative in the way you set up reserves?

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

I think I'll start off. I mean, Bijan, I think as I've said on prior calls, we have taken a more cautious approach in certain lines of businesses. We've maintained some higher picks in some lines of businesses. A good example of that is commercial auto, which we've been talking about for a number of quarters. So I wouldn't say it's a wholesale change in reserving process. Our practices are fairly consistent. But we are being a little more cautious in certain parts of the portfolio where we're seeing severity trends as an example in commercial auto.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Okay. And maybe if Jack can comment on the workers' comp and auto. A little bit of unfavorable reserves in auto. And, I guess, David you mentioned a pickup in BI severity. What really drove that and a favorable on workers' comp? And is there anything going on with loss cost there?

John C. Roche
President of Hanover Agency Markets

Yes, I mean commercial auto is something, as we said, we've been talking about for 7 quarters, and so I think what we see is continued evidence that the industry is experiencing an elevated level of BI severity. It's well documented. There's a number of factors that are contributing to that, whether it be medical cost issues or some evidence that distracted driving and increased litigation are contributing to all of that. And because some of that is unclear about when that peaks out and when it starts going the other way, or whether it flattens out, we really choose to continue to be quite cautious about taking too much credit for price over loss trend, or for that matter trying to predict when the loss trend curve plateaus. So I think you can see that are we more conservative than we were 18 months ago in the auto line? Absolutely. Because we were not catching up to the loss trends, as it turns out. But we're -- I think we're being responsible and thoughtful about how we look at the line of business. But because we've been at it a while, I don't think this is something that's going to be outsized for us. On workers' comp, I wouldn't read too much into the first quarter, quite frankly. We had a couple of losses that we took and that we, overall, the underlying trends in workers' comp should perform consistent with our guidance and also with the amount of pricing that we're putting over loss trend in that line of business.

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

And just to comment on your question about the releases there, Bijan, and I've also made this point previously in other quarters. We do take a conservative approach to workers' comp. The mix for our business there shifts a little bit, and as a shifting to the smaller part of the market, we're seeing more positive development in our reserve factors. So that's an older, older story playing through, frankly.

Bijan Moazami
Guggenheim Securities, LLC, Research Division

Great. And on Personal Lines, how much further exposure management you need to do? So, I guess, the question is that, when are you guys going to get an appetite to increase policy in force count in homeowners? Is that ever going to happen?

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

Again, I think what we've said is we're finishing up the exposure management work this week -- this year. It's kind of spread across the 4 quarters. A lot of it is Northeast, where we had legacy concentrations by ZIP code, because of the -- we used to be a very much a Personal Lines business in 4 states, so a lot of that is behind us. We are -- we feel very good about our portfolio and our book and kind of the mix we are attracting now. And so as I said, the second half of the year, I think you're going to see growth out of that business, and we're going to feel great about it. It's account business with the right agents, well spread across our platform. But this exposure stuff is really something that -- kind of our last step, if you will, of our legacy concentration risk that we had in some other regions. I guess, the common denominator across all our businesses, when we talk about pricing and margin, et cetera, I'll echo what I said in the call. We got 2 points of improvements last year. We're going to get 2 more points of good, solid improvement in our computation. We're confident in our ability to do that. We set ourselves up for more improvement next year as well. I think it is appropriate that we're thoughtful and conservative in some of these lines as we watch it play out. But we feel pretty darn good about where we are right now as far as our path on continuing that improvement, really, in all our businesses and in all our lines. And I think that's kind of the tone we're trying to set as far as where we're going this year and next.

Operator

Your next question comes from the line of Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

Looking at the domestic businesses. First quarter in a while that there's been net favorable development, which is a welcome change. I think in the prior question -- well, there's been 3 focus areas, if you will, personal auto, commercial auto, surety, you covered commercial auto in a prior question. Could you give a little color on surety and personal auto and, really, what's kind of led you to think we've turned the corner, whether it be kind of an update on where we are in the claims counts in surety or whatever you can provide?

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

And I'll have Andrew comment. But as we mentioned, this is really an older off book. We're working through the inventory and, virtually, that -- the outstanding work remaining on that is next to nothing now. And so we really like our book in the portfolio going forward and feel good about the way we are positioned in that business going forward. So it's just gone right on track the way we thought it would, and we feel pretty good about it. I don't know if there's anything, Andrew, you want to say about it.

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

I think that the only thing I would just add is to Fred's point, we -- starting back probably, what, almost 24 months ago, just we separated out the raw portfolio. We put a person in charge of that. We've been able to detail our exposures and manage them down and, quite honestly, the book has effectively unfolded from a loss perspective, broadly consistent with our expectations. There's been some timing things in terms of acceleration and deceleration, but, generally, as expected, and I think that to Fred's point, the remaining exposure is relatively de minimis. On the go-forward business, we have a very strong both commercial and contract as well as a team focused on smaller value transactional commercial. And what I would say to you is that we've been able to get some very good talent coming in. And our position in the market is one that I think is strong and improving. We fully expect that surety will again be a meaningful contributor to our earnings, as we look forward to '14 and '15 as well.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. Then any color on personal auto?

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

Yes, I mean, I think -- when we look at personal auto, I think a lot of the pain we experienced back a couple of years ago -- as you know, we had some significant development over the prior couple of years. And that we're pretty confident it's subsided, we've taken a long-term approach to our view of the loss trends in the 4% to 4.5% range, and we continue to take that view as we price it into the product. And we feel very confident that we're in a very good reserve position. And that we're going to see the 2 point improvement that Fred alluded to in that line as well.

Operator

Your next question comes from the line of Vincent DeAugustino from KBW.

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

Fred, just to the comment you made earlier on the Commercial Lines expense ratio. It would just seem like some of the improvement there might be sustainable. And I think maybe the prior commentary may have before pointed to a more gradual improvement. So I'm just kind of curious if there's any additional optimism on the Commercial Lines expense ratio improvement trajectory?

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

We've talked about 1 point this year from the growth there. And I think that's the right way to think about that business. As I look forward, there's more to go next year through for us in kind of across the commercial platform, because both our core commercial businesses are maturing, as well as specialty businesses. I mean, I think you all know, we invested a tremendous amount, both geographically, but also in the number of lines of business. So what we believe is that we'll get some of it this year, but we got -- we'll get more of it next year, too, and we're working hard on that. We know where it's going to come from, et cetera. So I feel like we have opportunity this year as well as next year as it unfolds.

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

I think always keep in mind though, Vincent, with that is Fred's referring to the core commercial book. And then, obviously, that tends to get offset as we grow the mix in specialty businesses. So sometimes, you don't always see it in the number, but when we break it apart and we talk about it, the core commercial book is where we'll see that reduction in expenses. But as we grow specialty, that's going to be a higher expense ratio business.

Operator

[Operator Instructions]

Oksana Lukasheva
Vice President of Investor Relations

Okay. So thank you very much for your participation today. We're looking forward to speaking to you next quarter.

Operator
Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.