S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

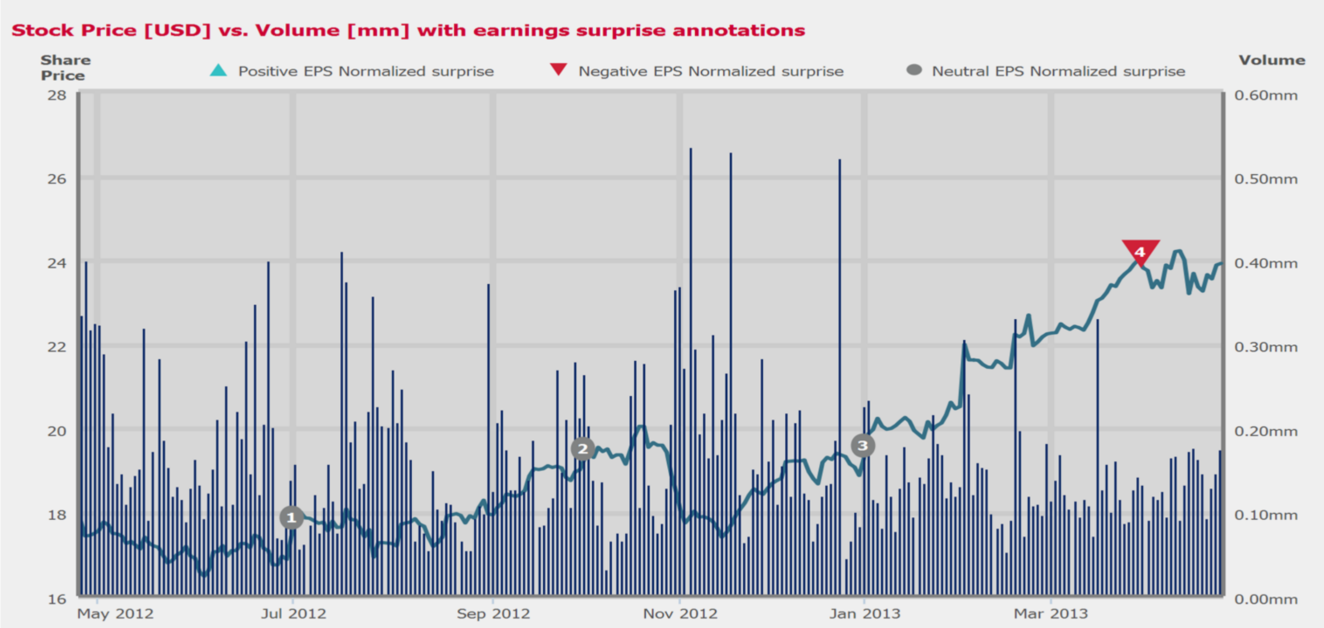
FQ2 2013 Earnings Call Transcripts

Thursday, August 01, 2013 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.42	▲20.00	0.31	1.48	1.90
Revenue (mm)	461.49	468.94	▲1.62	471.68	1851.33	1987.90

Currency: USD
Consensus as of Jul-22-2013 8:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	0.01	0.01	①0.00 %
FQ3 2012	0.34	0.34	②0.00 %
FQ4 2012	(0.17)	(0.04)	NM
FQ1 2013	0.38	0.36	▼3 (5.26 %)

Table of Contents

Call Participants

EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

John Joseph Marchioni
President & COO

ANALYSTS

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Sam Hoffman
BlueCrest Capital Management (UK) LLP

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

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's Second Quarter 2013 Earnings Release Conference 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, Ms. Jennifer DiBerardino. Thank you. You may begin.

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

Thank you. Good morning, and welcome to Selective Insurance Group's second quarter 2013 conference call. This call is being simulcast on our website and replay will be available through August 30, 2013.

A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website www.selective.com.

Selective uses operating income, a non-GAAP measure, to analyze trends and operations. Operating income is net income excluding the after-tax impact of net realized investment gains or losses, as well as the after-tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties.

We refer you to Selective's annual report on Form 10-K and any subsequent Form 10-Q filed with the U.S. Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

Joining me today on the call are the following members of Selective's executive management team, Greg Murphy, CEO; Dale Thatcher, CFO; John Marchioni, EVP of Insurance Operations; and Ron Zaleski, Chief Actuary.

Now I'll turn the call over to Dale to review second quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Thanks, Jen. Good morning. Second quarter results exceeded our earnings expectations as we achieved another quarter of strong rate increases and consistent retention. For the quarter, we recorded operating income per diluted share of $0.42 versus $0.01 a year ago, while $0.12 per diluted share of the improvement is due to lower catastrophe losses year-over-year, the primary drivers of results were the improvement in pricing and underwriting.

The second quarter statutory combined ratio of 97.7% was 8.5 point improvement from a year ago. Catastrophe losses in the quarter were $20 million pretax or 4.6 points, down from 7.7 points a year ago. Also in the quarter, we have favorable prior year casualty development of $2 million or 0.4 points.

Total statuary net premium written were up 9% in the quarter, with standard commercial lines net premium up 9% and excess and surplus lines up 15%. Standard commercial lines retention increased to 83% from 82% a year ago and renewal pure price was up 7.2% for the quarter.

The statutory combined ratio in the quarter was a strong 95.6%, including 2.8 points of catastrophe losses. All standard commercial lines of business were under 100% combined ratio in the quarter with the exception of workers compensation. Results range from a 76% statutory combined ratio in BOP to a 95% statutory combined ratio in Commercial Auto.

Workers compensation results of 118.3% in the quarter were driven by adverse prior year casualty development of $3 million or 5 points, primarily from the 2012 accident year. We have a number of initiatives in place to address the profitability of this line of business, including rate increases that in general have outpaced our overall renewal rate increases.

Personal lines net premium written grew 3% in the quarter to $79 million and the statutory combined ratio was 102.9%. Results included 10.7 points of catastrophe losses, compared to 16.5 points in the prior year quarter. The cat losses in the second quarter were from scattered storms and tornadoes throughout our footprint without any single particularly large event.

Personal lines pricing was strong in the quarter with renewal rate of 8.3% and we continues to see the benefits of our pricing success in underlying results. Retention held steady at 87%.

Net premium written for our E&S operations grew to $33 million in the second quarter, up 15% from a year ago. The statutory combined ratio of 106.8% was impacted by 8.5 points of catastrophe losses in the quarter, which were primarily driven by weather events in the south and southwest.

Additionally, we had $2 million or 6.7 points of adverse prior year casualty development, which was partially offset by better than expected non-catastrophe property results. Given the relative sizes of the E&S operations, there will be some volatility in quarter-to-quarter results.

We successfully completed placement of our July 1, 2013 excess of loss reinsurance treaties. Both casualty excess of loss and property excess of loss treaties were renewed with substantially the same terms of expiring.

The casually excess of loss treaty provides $88 million in coverage in excess of our $2 million retention. While, our property excess of loss treaty provides $38 million of coverage in excess of $2 million retention. Rate on the program was down slightly as reinsurers continue to give credit for underlying primary carrier price increases.

Turning to investments. Second quarter after-tax investment income was essentially flat at $26 million compared to a year ago. The rise in treasury yields towards the end of the quarter did not materially affect investment income but new money rates for the quarter increased to 1.6% after-tax.

Although, an improvement, this rate is still below the run rate of the fixed maturity securities portfolio, new money rates reflect our high average credit quality and where we are making new purchases on the yield curve. The after-tax yield on fixed maturity securities was 2.3% for the quarter, down about 24 bps from a year ago period. The overall portfolio yield was down 13 basis points.

As we stated, for every 25 basis point drop in portfolio yield, we lose 1 point in ROE, which subsequently requires a 1 point improvement in combined ratio to offset the decline.

Year-over-year fixed maturity income declined 5%, while alternative investment income increased 22% as valuations continued to improve. Private equity strategies benefited from strength in the high yield market and strong equity market performance, while the majority of our alternative investments report on a one quarter lag, equity market performance is not entirely predictive of the performance of our alternative portfolio. This is largely due to the mix and vintage of our investments, which include private equity, mezzanine debt and real estate funds.

Invested assets increased 5% from a year ago to $4.4 billion, driven primarily by increased operating cash flows and the net proceeds from our senior note offering in February. Partially offsetting these increases was the mark-to-market impact of $84 million, primarily driven by higher interest rates on the fixed income portfolio. Compared to June 30, 2012, the overall portfolio unrealized gain position declined from $172 million to $88 million pretax at June 30, 2013.

Also of note is the quarter end unrecognized gain position in the fixed income held to maturity portfolio of $28 million pretax or $0.33 per share after-tax. Our overall fixed income portfolio maintains a high credit quality of AA minus and duration of 3.5 years including short-term investments.

Surplus and stockholders equity ended the quarter strong at $1.2 billion and $1.1 billion respectively. Book value per share at June 30th was $19.72, essentially flat with yearend 2012, but down sequentially from the first quarter largely as a result of a negative impact of rising interest rates on the portfolios unrealized gain, partially offset by positive net income.

Our premium to surplus ratio was 1.5:1 at June 30th. In the quarter we achieved operating return on equity of 8.5% and total ROE of 9.7%, both exceeding our current 8% weighted average cost-to-capital as we continue to make progress towards our 12% ROE goal.

Now I'll turn the call over to John Marchioni to review the insurance operations.

John Joseph Marchioni
President & COO

Thanks, Dale. Good morning. Second quarter results reflect the success of our underwriting and claims strategies, and the exceptional employees and agents we have executing on those strategies.

We are successfully deploying our underwriting and pricing tools that provide underwriters with specific policy level guidance on an agency portfolio basis, which allows underwriters to target the highest rate increases on the worst performing accounts, while protecting retention on our best accounts.

Year-to-date, for standard commercial lines, we obtained 16% pure rate on our lowest quality accounts, with a point of renewal retention of 72%. We obtained a 6% pure rate increase on our highest quality accounts, while maintaining a solid 90% retention. As previously mentioned, we achieved 7.2% standard commercial renewal pure pricing in the quarter while retention remained strong at 83%.

Standard commercial lines new business improved substantially in the second quarter to $73 million, up 25% from depressed levels a year ago. On a year-to-date basis, new businesses up 11% to $142 million, while this is significantly below our capacity and submission activity remains under pressure, hit ratios improved in the quarter. We remained very comfortable with the quality and pricing of our new business.

And otherwise great quarter for commercial lines, workers compensation require reserve strengthening mainly for the 2012 accident year. While we continue to view workers comp in the context of an overall account, we remained very focused on improving this competitive line of business through underwriting, while we achieve renewal pure price increases of 7.8% for the first 6 months of 2013. We are applying all of the underwriting tools we have to move pricing higher and write the best risk.

We also have a number of claims initiatives aimed at proactively managing return-to-work programs and higher severity claims. We won't be satisfied until we have significantly improved the profitability in this line, but we are up against industry issues that are not easily solved due to the regulatory environment.

Through 6 months, our excess and surplus lines contract binding authority business combined ratio was 102.6%. The first half of the year included renewal pure price increases of 7.6%, which is contributing to the underwriting improvements as we apply Selective's monitoring tools and discipline to their still relatively new book of business. Results are tracking in line with our expectations to achieve between 100% and 102% combined ratio for 2013.

Underlying personal lines results in the quarter were strong but the reported combined ratio was negatively impacted by catastrophe losses as well as 3 points of adverse development related to a few 1970s personal injury protection or PIP claims. We still had a small inventory of claims from a period of time in the mid 1970s when PIP was unlimited and the state's catastrophic fund or UCJF was not yet in place.

Due to lifetime nature of these exposures, individual files will occasionally were developed unfavorably. We are making good progress on our targeted profitability improvements for both homeowners and auto. We achieved an overall 8.3% renewal price increase for personal lines in the quarter while retention remained high at 87%.

Growth was within our expectations in personal lines as we carefully push rate and work to improve our mix of business. The statutory combined ratio through 6 months remained at profitable 97.6%.

We continue to drive profitability in the homeowners' line as we increased rates across the book and make underwriting changes, including raising deductibles to increase cost sharing. In fact, since June 2012, we've increased the average deductible on our in-force book by 21% to $890 from $735.

Additionally, in 2013, we have tightened our underwriting appetite for mono-line homeowners. We still require additional rate increases to achieve our targeted combined ratios in the high 80s in a normalized catastrophe year. For the 6 months, our homeowners' line achieved its statutory combined ratio of 97.8%, including 11.8 points of catastrophe losses and renewal price increases of 11.1%.

For personal auto, we've consistently been getting price above loss cost trend achieving 6% in the second quarter. We are increasing the geographic diversification of our auto book and have made progress on increasing the age of the book.

We believe that our ongoing rate action and improvement in the underwriting mix of business and maturity of the auto book will continue to drive improvement in this line for long-term success. We recently held 6 producer council meetings throughout our 22 standard state -- standard lines footprints as well as our -- as for our E&S operations.

Agents tells us that they remain very comfortable with a granular approach we are taking on renewal price increases. They've also indicated that we are well-positioned to take advantage of the quality new business accounts that are being pushed into the market by some competitors.

We recently received the results of our annual independently administered agency survey where we received even higher marks from our agents than a year ago. Operationally, we are very confident in the progress we're making towards our 2014 goals.

Now I'll turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Thank you, John. Our second quarter results for underwriting combined ratio, renewal, pure price increases, new business growth and retention are compelling and demonstrating the improvements to our underwriting operations. The 97.3% 6 months statutory combined ratio is 170 basis points below our full year guidance and reflects these important contributing factors.

Standard renewal pure price increases of 7.5% which have earned in at 6.7% rate versus a fairly stable loss trend of 3 points. Catastrophe losses 50 basis points below our full year 3-point estimate, favorable prior year casualty reserve development of 40 basis points partially offset by the pension curtailment which increased the combined ratio by 70 basis points.

Despite the commentary that we're hearing in the industry about pure rate increase is losing momentum, we do not see anything that causes us to modify our 3-year underwriting improvement plan that achieves 92% ex-cat statutory combined ratio in 2014. For the first 6 months of 2013, our ex-cat statutory combined ratio was 94.8%.

Renewal pure price increases are the lynchpin of our 3-year goal and we are achieving results well within our stated target of 5% to 8% increases each year through 2014. We achieved standard renewal pure price increases of 6.3% in 2012, 7.5% for the first half of 2013 while standard lines retention remained steady at 84%.

Our renewal pure pricing strategy of 5% to 8% reflects our expectation that 2014 standard renewal pure price levels will be modestly below the current year 7.5% rate that we achieved. While fixed income -- while fixed income interest rate did move higher in the second quarter, we do not believe these rates lessen the substantial industry need to increase pricing in order to generate 10% to 12% ROEs.

In our analysis, if rates were to move up 50 basis points per year for the next few years, book yields would continue to underperform 2012 levels until we reach 2018. Underwriting improvements are ahead of our expectations.

Our granular pricing capabilities through sophisticated underwriting tools are driving the results. Additionally, we are on track with our claims improvement plan to achieve 2 points of benefit on our loss and loss adjustment expense ratio through initiatives such as medical cost containment through extensive network renegotiations, enhanced nurse case management, sophisticated fraud recovery predictive modeling tools, legal fee management and a complex claim unit.

Our strategy to write small to mid-size accounts which naturally have a lower profit volatility, allows us to use higher leverage at both our underwriting operations and investment to enhance results. Most importantly for Selective, 1 point of combined ratio equals 1 point of ROE. For the industry, it takes 2 points of combined ratio to generate 1 point of ROE.

Competitors need to drive their combined ratios into the low 90s to achieve acceptable ROEs. Due to these dynamics, I do not anticipate any major barriers in achieving our 92% ex-cat statutory combined ratio goal for 2014. Although our results are better than expected for the first 6 months, our underwriting guidance for the full year 2013 remains an ex-cat statutory combined ratio of 96% including no additional prior year casualty development and a 3 point estimate for catastrophe losses.

However, we are fine tuning our after-tax investment income to be approximately $95 million for the year. Weighted average shares are expected to be approximately 56 million.
Now I’ll turn the call over to the operator for your questions.

Question and Answer

Operator

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

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

George, one of the comments that you had made about the regulatory environment, specifically on worker's comp, I guess, otherwise thought about personal lines being a little bit generally tougher from a regulator standpoint and commercial lines, a little bit more flexible. So I was just curious, is there anything new or any specific challenges that you are seeing now that speaks of that comment or if that was just more of a general and consistent theme that with no change underlying?

Gregory Edward Murphy
Chairman & CEO

Yes. Vince, I think it's a good question and I do think it's fairly consistent over time. But when you think about the difference between personal, auto or home for that matter and comp, while in certain states, it is sometimes more difficult to get rate increases through, you are still basing those rates filings on your own individual performance and your own expectations about loss cost going forward. Whereas in worker's comp, you require -- you are relying on either MCCI or individual state bureau to develop the loss cost and build in expectations for medical inflation going forward. So you have a little bit less control over what you actually file and what you support with regard to your rate level indications. So I think that is a little bit of a different approach than we see in personal lines generally. But that’s been consistent over time.

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

Perfect. And then, you mentioned that on the medical loss cost side, just curiously you guys are feeling about medical loss cost inflation in the context of, some of the worker's comp development and some of the yield claims that have come up. I am just looking out at the year or so on what you think medical severity might do. I just feel at this point we are getting on a cuff of the bait between whether rising interest rates kind of foretell rising in your loss cost inflation and just always curious of your guidance thought on the topic?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Vince, this is Dale. I mean, obviously we’re paying very close attention to it, but we are stuck a lot like you trying to understand exactly what’s going to happen with Obama Care and with all the other different initiatives that are going on out there, we’re very careful about what we monitor. And we are obviously assuming some higher level of loss cost inflation on the worker's comp line and the general liability line, both of those related to the medical cost. But your guess is as good as ours as to where that's ultimately going to play out.

John Joseph Marchioni
President & COO

And Vince, this is John, just to add to that, you heard references during the prepared comments relative to medical cost containment and other claims initiatives, we are absolutely focused on some of the more significant and longer term comp claims and some of the improvements we are makings. So while we have done a lot of control over medical inflation, we can try to better manage severity at least where the big dollars are relative to the claims inventory and that will help offset some rising inflation going forward.

Gregory Edward Murphy
Chairman & CEO

Vince, this is Greg. The only other comment I would add is obviously we look at inflation -- medical inflation which we look at specific within the comp line, we are looking at a long period of time. So there is a pretty high inflation rates built in to the base period. And so we are looking at that. We have seen from time to time some increases in our tail factor but nothing that is outside the ordinary. I think this situation that you are talking about relative to some of these claims is more on a severity basis on an individual claim basis than there is any over -- over arching inflationary matter.

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

Okay. Perfect. Actually your guidance and comments, I think you are ahead of the game as far as where some of your other regional peers stand on an analytics standpoint. So you are quite comfortable there. I would just like to throw one other one out, you guys have mentioned just with the sequential changes in the P&C rates lately. From my standpoint you guys fared pretty well and when I -- more of that comment goes to where the fourth quarter 2012 stats. So I am just wondering since Andy kind of barreled through your backyard, if there is any commercial pricing benefit in the first quarter from, maybe Sandy knee jerk reaction that maybe diminished a little bit, making a sequential rate comparison a little bit more unattractive, but kind of not really based in reality. Or at this point based on your other comment, are we seeing any sort of just change in the overall environment, I don't think that you guys are seeing that, but as far as large account versus small account?

John Joseph Marchioni
President & COO

Yes, Vince, this is John. With regard to the first part of your question, we didn't really see any significant first quarter change coming off of the large events, Hurricane Sandy in the fourth quarter. You look at commercial property for us and for the market generally, it continues to be a very profitable line of business and I think while people may have changed their cat assumptions going forward, we didn't see a real meaningful tightening of capacity or change in the pricing environment because of that in the first quarter that would have been back down again in the second quarter. I would say what we saw in the second quarter was pretty consistent with what we've said in the first quarter, which is, we think we reached a point where we feel like rates will stay in the kind of range that we've been seeing now the last couple of quarters and that's what we saw, is pretty stable rate environment across all lines of business and retentions that are holding up very well. So we feel like we are at a pretty good place and certainly expect to continue to see that going forward.

Gregory Edward Murphy
Chairman & CEO

Yes. The only other comment I would add to that. I mean, obviously, some certain carriers came out of the box, one hard on renewal price increases, some were doing it across the board, some were doing it respective to individual account performance. We refer that sometimes as socialized rate. And I think some carriers have found a gap in their retention dropping and then all of a sudden a lot of top line pressure. So I think there has been a little bit of the rebalancing of that. But I want to make sure that when you sit there and you look at what we laid out as our 3-year plan at beginning, at the end of 2011 before or 2012 time period, we were pretty consistent in our message about what we needed to do in price, how we thought price would manage. And I would say that this is just normal noise quarter-to-quarter. And we're still bouncing around for 73 rate in commercial lines for the first 6 months for the year and we're not in any way uncomfortable with that. When you pick the midpoint of our 5% to 8% increases that's 6.5%, so that's still running, a healthy 70 basis points over that midpoint. So we feel that rates in the balance of the year will continue to kind of be in that -- slotted in that area, and as I mentioned in my comments, we believe that '14 rate will be notched below that level but still within our 3-year pricing targets to reach our goals.

Operator

[Operator Instructions] Our next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle

RBC Capital Markets, LLC, Research Division

Couple of questions, first, just a clarification on a number. You mentioned in personal lines commentary, 3 point adverse development related to the very old claim, so was that -- that was 3 points on the auto combined ratio or on the overall personal lines combined ratio?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It’s on the overall personal lines.

Gregory Edward Murphy
Chairman & CEO

Overall. Yes. Overall.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Yes. Overall. It’s almost twice that amount, if you look at just purely on auto.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. But all of it was in fact auto.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Correct.

Gregory Edward Murphy
Chairman & CEO

Correct.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It’s all New Jersey, it was...

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Right. I figure, yes, I figure that’s what it was related to and I was just kind of match to the right bucket, the…

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It was $2.4 million, Mark.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Okay. Second question on any, how have your Sandy reserves developed since you last reviewed them, looks like they were pretty good running through the first quarter, just trying to get an update on that?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Right. Basically, as of yearend, we're at $136 million and as of June 30th, we are at $136 million. So we're pretty spot-on, we continue to have some additional IBNR, so we feel very confident that we'll come in at or about that $136 million number.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Two questions just kind of underneath that topic. Do you guys do a lot of work with flood claim handling? Is that book settled more substantially than where it was at the end of the first quarter or there is still a lot open claim activity, I know the flood doesn't affect your results, but is just more kind of a market curiosity question?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Yes. In terms of the percent of claims that are closed at this point is just under 100%, right around 99% closed at this point.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. Good to know. Next question, in your guidance you talked about 56 million average share account, from that should we infer some plans to do buybacks during the back half of the year, since you're running a little bit above that level so far year-to-date?

Gregory Edward Murphy
Chairman & CEO

No. That's just an average number, Mark, there is no buyback authorization and no current plans for share buybacks.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. That answers that then. And then, the -- I guess, my last question particularly in the auto book, I mean, that's the line of business that has been extremely competitive, lot of people are trying to get rate in that line. When you look at that line strategically, obviously you're committed to it, there is not something. I'm not suggesting a change there. But tactically with everybody being so aggressive on auto rates, is that a line that you should just let kind of, I'll say, idle or growth slow over time and just allow the market shares to go where they will?

John Joseph Marchioni
President & COO

Yes. This is John. Mark, I would say that if you looked at our personal auto hit ratios and our new business growth over the last year, it has been, to use your phrase, idling. And I think we made a conscious decision to get the rate level to where we thought it needed to be and allow hit ratios and new business to effectively slowdown as a result of that. So till we're comfortable and it certainly varies state by state as to where the market is and where we are comfortable relative to our pricing level, but we're going to allow that to continue to play out. Now the other dynamic I would add to that however though, is when you look at what is going to -- we expect to continue to be a diminishing availability of model line home in the market. I think our ability to leverage a good home product to gain more of that package business from the target audience that we sell our product to. I think that will start to change the landscape a little bit and while it's not going to take auto too far from where it is in terms of the commoditization of that product. I think it will help move it a little bit closure for the package buyers to more of a consultative buy and I think helps companies like us in the process.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

And if I could, I would say strategically, I think you're starting to see a change. So carrier -- agency companies wrote home openly for extended periods of time. When you look at the historical profitability of home, whether it's 20 years, 30 years, it's running at 109, 110 levels. And I think holistically when you look at some of the key carriers, you are seeing a change in that philosophy. You're seeing a change in rating, you're seeing a change in an expectation of how volatility affects the result. And I think you'll find now that as the home product becomes priced more properly and isn't just given away because that product write that at a loss, that's what's created a bigger opportunity to siphon off the mono-line auto business, John is referring is more aggressive strategy to write the whole account on piece of business.

John Joseph Marchioni
President & COO

And we've seen that come true. If you look at our mix of new business with an account credit on it, so got the companion home attached to it. It's pushing up near 3/4 of our new business at this point, which is up well over where the historical levels were.

Gregory Edward Murphy
Chairman & CEO

And there are 3 states that were writing mono-line, home in right now, New Jersey, South Carolina and Virginia. So we've already kind of advanced that initiative through our network.

Operator

Our next question comes from Sam Hoffman with BlueCrest.

Sam Hoffman
BlueCrest Capital Management (UK) LLP

I had a question on the loss ratio in the quarter. There was a significant step down in the loss ratio excluding cats and development sequentially. I think it was 64.3% in the first quarter, 64.6% in last fourth quarter and I have that 61.5% in the second quarter. So can you talk a bit about what cause the step down? How much was pricing versus underwriting and claims initiatives and were there any one-timers in the quarter?

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Sam, I don't have all those components parched out sitting in front of me. But I can tell you that it is a combination of continuing earned price increases that are impacting the combined ratio. It's non-cat property losses came in substantially ahead of where we expect to them to commence. So those are the 2 biggest drivers with regards to the improvements in the loss ratio for the quarter. We can always -- later kind of sit down and bite through the numbers and get to the more precise thesis of that, if you'd like to do that. But clearly, we are happy with the improvement that we are seeing in the loss ratio.

Gregory Edward Murphy
Chairman & CEO

And if I could, Sam, obviously the easiest one that Dale mentioned is when you look at the earn rate, at 670 in the fast math to look at how much we're getting to rate is 670 minus 3 and multiply that by 70%. That's the fast math to say, okay. That's what is leveraging down your performance coming from earn rate. So that's the number. As that number continues to move higher, and that earn rates starts to move north of 7, that's when -- as long as loss trend stay stable, which we don't see anything right now that's going to modify that. That's where you'll see the biggest leg down in the combined ratio. The other things that push that are the underwriting improvements which are better than expectation, which John mentioned and I mentioned in my part and the fact that we are pushing claim. So there it's all 3 of the pieces that are coming together to actually get that improvement. But that is not out of expectation, when you look at what we laid out and when we went through the whole the different issues that are driving. We say it was lowering our combined ratio relative to our expectation.

Sam Hoffman
BlueCrest Capital Management (UK) LLP

So the 61.5 that's maybe a little bit better than you're expected in the quarter. But it's not out of line with overall, it's not way out of line that's kind of roughly on the churn line that you're expecting.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

I would agree that it's modestly better than we were expecting because the non-cat property which is obviously the unknown in the overall scheme of things came in better than expected. But it's certainly close to the overall trend line.

Operator

[Operator Instructions] We have another question from Vincent DeAugustino with KBW.

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

Just on commercial auto, the margin there this quarter was pretty much flat year-over-year, which is a lot better than some of your peers. And so I guess what I am kind of surprise by on this line is the issue that the industry kind of appears to be having a little bit more recently. And just in the context of where rates and loss costs trends are in the fact that generally a little bit easier of the line relative to something like workers comp. So given the context of the industry issue and just if not more dramatic loss ratio improvement for you guys, again still better peer comp. I'm just curious if you're seeing anything new on the loss cost side emerge, just with kind of more recent trends not being so much more favorable. So maybe you've got more right than everybody else but always curious of your thoughts.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Vince, one of things that always keep in mind is particularly on the commercial auto because we had a number of questions from investors over the last couple of quarters is our commotional auto book looks a lot different than just a broad industry commercial auto book. The broader industry has much more exposure to long-haul trucking and issues like that. Remember that about 35% of our book is contractor. So lot of our commercial auto business is basically light level of delivery and the contractor vans and pickup trucks and things like that. So that actually causes the dynamics to be a bit different in our commercial auto book when you see from the broad industry. So I think that's why we are performing better. But as the economy has picked up a little bit, yes, we've had more miles driven but it's not the type of miles that have the same kind of volatility and loss exposure as you're seeing in the broad industry.

Gregory Edward Murphy
Chairman & CEO

And the only thing I would add to that, when you look at rate this has been a strong line from our standpoint on a rate. We're getting 7% on a written basis in terms of rate level and that's held very standard -- very level from 1Q to 2Q sequentially. And that from on an earned basis, the frequency and severity while relative to its effect on overall loss trends is pretty flat. But Dale mentioned, I think part of it is a make-up of the book. I know from an industry perspective there is a lot of attention to the type of business that you're writing and where some of the problems are manifesting in this line of business.

Operator

[Operator Instruction] I'm showing no further questions from the phone lines at this time.

Gregory Edward Murphy
Chairman & CEO

Well, thank you very much. If you have any follow-up items, please contact Jennifer and Dale. Thank you very much.

Operator
That does conclude today's conference. Thank you for participating. You may disconnect at this time.