The Hanover Insurance Group, Inc. NYSE:THG

Earnings Call

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Call Participants

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Presentation

Operator

Good day, and welcome to The Hanover Insurance Group's Third Quarter Earnings Conference Call. My name is MJ, and I will be your operator for today's call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Senior Vice President of Corporate Finance

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

Before I turn the call over to Jack, let me note that our earnings press release, financial supplement and a complete slide presentation for today's call are available 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 as defined under the Private Securities Litigation Reform Act of 1995. These statements can relate to, among other things, our outlook and guidance for 2024, economic conditions and related effects, including economic and social inflation, potential recessionary impacts as well as other risks and uncertainties such as severe weather and catastrophes that could affect the company's performance and/or cause actual results to differ materially from those anticipated. We caution you with respect to reliance on forward-looking statements, and in this respect, refer you to the Forward-looking Statements section in our press release, the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as operating income and accident year loss and combined ratio, excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining us. We delivered exceptional results in the third quarter, driven by outstanding execution across our organization. The significant profitability improvements we delivered in the third quarter are the direct result of the strategic initiatives we have been discussing with you for the past 18 months, including enhanced pricing, significant insurance-to-value adjustments, terms and condition changes and targeted underwriting actions.

Before we get into the details of the quarter, I want to acknowledge the people and communities affected by the recent hurricanes in Florida, the Southeast and the Mid-Atlantic. Hurricanes Helene and Milton caused tragic loss of life and tremendous destruction. While only a small portion of our business is written in those regions, we are committed to providing our insureds with much needed assistance and claims support. Our experienced committed team is working around the clock to ensure that claims are processed as quickly and efficiently as possible.

Now turning to our results. We generated operating income of $3.05 per diluted share, yielding an operating return on equity of 14.4%. Our ex-CAT combined ratio improved by 2.4 points compared to last year's quarter, further validating the impact of our margin recapture initiatives. We delivered substantial improvements in Personal Lines, outstanding underwriting results in Specialty and strong performance in Core Commercial despite prudent loss selections resulting from industry liability trends. As evidenced by the favorable prior year development across all 3 of our major segments, our reserves remain healthy, and we believe we are well positioned to navigate social inflation trends. And we continue to make notable advancements in our margin recapture and CAT mitigation plans, demonstrating our agility and resilience and enabling our strong and improving profitability trends.

Next, I'll discuss our segment performance at a high level, starting with Personal Lines. We are very pleased with the progress we're making in this business on both the top and bottom lines. Excluding catastrophe losses, we made significant year-over-year improvements in both auto and home as a result of underwriting actions we have taken and the benefits of price increases. Auto is now at target returns on both a written and earned rate basis. Home is at target on a written basis.

Our Personal Lines team generated premium growth of 6.8% in the quarter, driven entirely by pricing, with policies in force still declining year-over-year and sequentially as expected. The decline in policies in force reflects our continued efforts to carefully balance our geographic exposures in certain areas of the Midwest. Pricing continues to be very robust in Personal Lines. Despite PIF reductions, we generated net written premium growth of approximately 3.5% in the Midwest states and over 10% in the rest of our Personal Lines footprint.

As we continue to see rapidly improving margins, we are focused on accelerating growth in states with attractive profitability and geographic profiles. We expect this trend to continue into the fourth quarter as we gradually lean into more states for new business growth. At the same time, we are continuing to mitigate our overall catastrophe risk exposures, with more than half of our Personal Lines portfolio now under new or enhanced deductibles. The benefit of these actions has been evident in the wake of some of the convective storms in the Midwest this year.

Our higher deductibles not only have improved cost sharing on claims, but these terms and conditions have the additional benefit of encouraging policyholders to be more discriminating on full roof replacements when storm damage is more cosmetic and helping counteract aggressive roofing company marketing tactics. Also, we continue to broaden our account product capabilities in Personal Lines, adding collector car protection via a partnership with a leading classic car franchise. This will be critical for meeting the evolving needs of our customers as we maintain our competitive edge in the market.

Turning to Core Commercial. Our solid financial performance underscores our prudent growth strategy in Small Commercial and effective margin improvement actions in middle market. We are positioning our Core Commercial portfolio to be even more resilient while thoughtfully capitalizing on attractive growth opportunities. We are very pleased with our ongoing execution and excited about the prospects of reaching our full potential in this business.

As we have guided, middle-market premiums were lower in the third quarter as we finish up the journey on profitability improvement in property and proceed cautiously with the liability lines. At the same time, we are retaining the business we desire to keep and gaining momentum with new business. We are confident we will generate growth in middle market starting in the fourth quarter and expect to see steady improvement moving ahead.

In our Small Commercial business, we leveraged our solid market position and attractive product portfolio in the quarter, delivering growth of approximately 6%. We have every reason to be optimistic about our Small Commercial prospects. Our meaningfully increased submissions and new business growth reflect the effectiveness of our TAP Sales platform as well as the investments we've made in expanding our sales force and distribution reach. We are particularly excited about the integration of workers' compensation in TAP Sales next year, which we believe will further enhance our opportunities.

Our Small Commercial team is dedicated to competing and excelling in the marketplace every day as we continue to set ourselves apart with our underwriting expertise, advanced capabilities, digital tools and strong product offerings. At the same time, we are intensely focused on profitability, especially given the industry environment relative to social inflation and litigation abuse.

We are pleased with the continued increase in average price changes in Core Commercial lines this quarter, led by liability pricing. Since 2016, we've been monitoring our loss trends and refining our underwriting appetite accordingly. Since that time, we have reduced exposure in high-risk areas such as industry sectors that are more prone to slip and fall and premises liability losses, particularly in major urban centers. Years ago, we discontinued stand-alone umbrella and focused on maintaining low liability limits in auto policies. As a result, our growth in liability lines to date has been more measured compared to the industry. This foresight has equipped us to navigate today's market challenges effectively.

We believe our portfolio is now more resilient than most, thanks to our business mix, limits profile and the industries and geographies covered, which is evident in our third quarter results. Our commitment to underwriting excellence and discipline positions us well for the future.

Moving on. Our Specialty business continued to achieve exceptional bottom line results in the third quarter and year-to-date, delivering sustainable profitability and consistently robust margins. We've accelerated our investments in this area, adding skilled talent and innovative technology to excel in an increasingly digital insurance market.

In E&S, for example, we have introduced a new policy quote and issue platform to enhance underwriting, response times and operating efficiencies. In Marine, we have enhanced and further strengthened our team and are deploying new technology and processes to improve ease of use. In surety, we are investing in an additional field talent and ensuring strong market visibility to stay connected with our customers and agents and to seize new business opportunities.

Although Specialty growth moderated to 3.4% in the quarter, we are very confident in our ability to rebound a strong growth. We continue to develop upper single or double-digit growth in our most profitable lines, including E&S, surety and management liability. At the same time, our prior and ongoing profitability improvement initiatives in specific segments, particularly programs, have led to higher-than-expected premium attrition in the quarter and have impacted our overall Specialty top line performance.

Excluding the programs business, Specialty grew 5.4% in the quarter and 7.4% year-to-date. And we expect high single-digit growth in the fourth quarter and subsequent quarters. We believe the Specialty market remains robust and full of attractive opportunities in our targeted growth areas. We are enthusiastic about maintaining and enhancing significant growth in the E&S sector facilitated by our new platform. In Marine, we are growing new business while expanding our portfolio, both geographically and across various business classes, reinforcing our position as a top-tier go-to carrier. We continue to show steady growth in surety while maintaining underwriting discipline in the current market.

Conversely, in markets where we witness increased competition, particularly in subsectors of the professional lines market, we exercised the required prudence. Our business is competitively positioned with numerous attractive growth opportunities. We see a wealth of new business prospects and have great confidence in the investments we are making in Specialty as well as in its growth trajectory.

Overall, our third quarter results have built on our solid momentum from the first half of the year. providing strong evidence of our ability to navigate a dynamic market environment. The effectiveness of our team's efforts instill profound confidence in our future as we continue to drive growth alongside healthy profitability. We are determined to continue to provide innovative, high-quality insurance solutions for our partners and customers to generate strong, sustainable, profitable growth and to deliver strong results in a market environment that demands diligence and expertise, qualities we possess in abundance. Our execution to date and my confidence in our team reinforces my unwavering conviction in the Hanover's future trajectory.

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

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack, and good morning, everyone. I'm very pleased with our performance, which has gained significant momentum in recent quarters. In the third quarter, we've seen notable improvements in

Personal Lines and sustained strong margins in both our Core Commercial and Specialty segments. These achievements are the result of our disciplined underwriting, prudent pricing and strong execution.

For the third quarter, our all-in combined ratio was 95.5%, which included 7.2 points of catastrophe losses. The Hanover has strategically limited its exposure in Florida and the Carolinas, opting not to over-participate in the Gulf Coast wind markets. Catastrophe losses from Hurricane Helene were approximately $40 million, primarily impacting Personal Lines in Georgia and Core Commercial in the Carolinas. Losses in the quarter also included a lesser impact from Hurricane Beryl along with a few weather events in the Midwest and Southeast. These losses were partially offset by 0.7 points of favorable development from prior year catastrophes.

Due to our low exposure to Florida wind, including not writing Personal Lines in Florida at all, we expect losses from Hurricane Milton in October to be minimal. Excluding catastrophes, our third quarter combined ratio was 88.3%, the best in several years and an improvement of 2.4 points over the prior year quarter. Year-to-date, our ex-CAT combined ratio stands at 88.7%, one of our best performances as well and surpassing our original guidance range for the year of 90% to 91%.

Prior year development in the quarter was favorable by 0.9 points, highlighted by widespread favorability in property lines. While our liability loss experience and trends are largely within expectations, we continue to exercise prudence in our loss picks to guard against volatility in what remains an uncertain loss trend environment.

Looking at favorability in more detail. Specialty was favorable by 3.1 points. The segment benefited from lower-than-anticipated losses in our professional and executive claims-made policies and favorable results in surety. Core Commercial favorable development of 0.7 points was spread among multiple lines with favorability in each major line. Core Commercial umbrella is experiencing some pressure, but it remains well within manageable levels.

Consequently, we have increased pricing in the third quarter from Q2, and we plan additional increases in the coming months. Personal Lines development was immaterial in the quarter overall, with some continuing elevated trend in umbrella. Accordingly, we are filing rates to achieve pricing in the 20% range for next year.

Our consolidated expense ratio of 31% was 0.8 points higher than the same quarter last year. This increase is due to higher agency and employee compensation this quarter, especially when compared to the lower level of variable compensation in the third quarter of last year. Additionally, the expense ratio increase reflects ongoing investments in talent and technology, particularly in our Specialty segment. We are confident in the investment choices we made, and we remain committed to our long-term goal of improving the expense ratio by 20 basis points per year. When we look at the bigger picture, our combined ratio is coming in well below our original expectations.

Now turning to our segment results, starting with Personal Lines. This business posted another quarter of meaningful improvement, reporting an ex-CAT combined ratio of 89.2%, down by 7.2 points from the prior year quarter, driven by the loss ratio. Personal Lines auto continues to see an exceptional rebound in profitability, delivering a current accident year loss ratio, excluding catastrophes, of 69.8%, an improvement of 7.7 points from the prior year quarter. The comparison was somewhat impacted by higher loss picks in the third quarter last year, which developed favorably in Q4. The majority of the improvement, however, is the result of earning in very substantial price increases and, to a lesser extent, lower-than-expected auto collision loss experience.

Collision severity has normalized, which should drive further margin improvement. Additionally, we continue to experience lower-than-expected frequency of losses, which might be attributable to multiple factors like the impact of crash prevention technology in cars and changing customer behavior, including being more discerning on whether to file small claims.

Although bodily injury frequency remains well below pre-COVID levels, severity continues to be elevated due to riskier driving behaviors and distracted driving, resulting in a higher proportion of deadly crashes involving pedestrians, bicycles and motorcycles. While we are not attributing personal auto BI severity to social inflation, we continue to vigilantly monitor these trends.

Turning to the home and other components of our Personal Lines segment. Our ex-CAT current accident year loss ratio of 55.7% improved by 7.3 points from the prior year quarter, primarily driven by the benefit of rate and underwriting actions. This is a trend we expect to continue. Lower attritional and large loss frequency is helping our Personal Lines property results. We anticipate our home and other line will reach target returns on an earned basis by mid-2025.

Personal Lines top line growth was 6.8% in the quarter, showing nice sequential acceleration driven by strong pricing and improving retention across many states. Pricing is expected to further moderate but remain healthy exiting 2024. As a result, we remain on track to return to target profitability on an earned basis next year in Personal Lines overall.

Moving on to Core Commercial lines. We delivered a combined ratio, excluding catastrophes, of 91.1%, up 1 point from the prior year quarter. Core Commercial current accident year loss ratio, excluding catastrophes, was 58.2%, relatively in line with expectations but 1.9 points above the prior year quarter, which reflected lower-than-expected property large losses.

Property margins remained favorable in each line. At the same time, we are setting our liability current year loss picks higher to effectively position ourselves for increases in loss trends. This resulted in an increase in the loss ratio in the commercial multi-peril line and in other Core Commercial. In terms of pricing, we have increased umbrella pricing to 12.7%, while overall GL rates are up nearly 1 point year-over-year and continuing to move up directionally.

We are picking our workers' compensation loss ratio higher as well based on our normal long-term loss trend assumption and a relatively flat earned rate. At the same time, the commercial auto loss ratio is demonstrating improvement driven by a similar collision frequency favorability being observed in Personal Lines. Core Commercial top line growth slowed to 1.7% in the quarter, driven by premium reduction in middle market due to property actions and lower new business.

In the Specialty segment, the combined ratio, excluding catastrophes, increased 1.3 points to 82.6% compared to the prior year period, driven by higher expenses, as noted before. The Specialty current accident year loss ratio, excluding catastrophes, came in at 48% for the quarter on strong results across the business and favorable to our low 50s loss ratio expectation.

Property large loss experience was again below expectations, especially in our Marine, Hanover Specialty Industrial Property and E&S segments. We are monitoring select liability lines for inflationary indicators and maintaining a prudent approach in our current accident year loss selections. Specialty net written premiums grew 3.4% in the quarter compared with 8.2% in the second quarter. But as Jack noted, we expect the pace of growth to snap back in the fourth quarter.

Moving on to our investment performance. Third quarter net investment income increased 9% year-over-year to $91.8 million, propelled by higher earned yields on our fixed income portfolio, partially offset by lower partnership income. Income from limited partnerships was subdued in the quarter, driven by underperformance in a handful of private credit and real estate funds. Excluding partnerships, net investment income was up approximately 15% in the third quarter of 2024 as compared to the year ago quarter.

We've also benefited from repositioning within our portfolio. As in Q2, in the third quarter, we divested a portion of our lower-yielding fixed income securities in consideration of expiring tax carryback capacity from 2021. Against the backdrop of a shifting interest rate environment, relatively tight credit spreads and expectation of lower short-term rates going forward, we believe we are well positioned. Our 4.1-year duration should result in increasing net investment income going forward. In the current interest rate environment, we are still seeing about 150 basis point gap between new money and expiring yields.

Looking at our equity and capital position. The combination of earnings and change in unrealized losses in the quarter drove book value per share up 12.6% from Q2 to $79.90. We continue to pursue a thoughtful capital allocation strategy. We refrained from repurchasing shares during the wind season. Historically, we've consistently returned capital to our investors through increasing regular dividend payments and strategic share buybacks when the timing was right. Our core approach hasn't changed. We continue to see both dividends and share repurchases as key tools for managing capital allocation and to create further shareholder value.

Moving on to an update on our guidance. With 1 quarter left in the year, we feel we are on track to beat our original ex-CAT combined ratio guidance for the year, driven by better-than-expected improvement in the current accident year ex-CAT combined ratio as well as favorable development, which is helping to more than offset a slight miss on the expense ratio guidance. We now expect our full year expense ratio to be at or near 30.9% compared to the 30.7% to which we guided. It is related to largely temporary items such as incentive compensation, which we expect to normalize in the following year.

Accordingly, we are expecting to guide to a 30.5% expense ratio in 2025, which should realign us with our long-term expense ratio goals. Most importantly, we anticipate the 2024 ex-CAT combined ratio to be below our guidance range of 90% to 91% that we established early in the year. On a consolidated basis, we expect net written premium growth in the fourth quarter to be greater than 6%. Given the minimal impact expected from Hurricane Milton, our planned CAT load guide for Q4 remains unchanged at 5.7%.

To conclude, we are extremely pleased with our Q3 results and increasing earnings growth momentum. Our performance reflects the successful implementation of key strategies we've been executing over the past 2 years. We will continue to focus on creating long-term growth and superior returns for our shareholders. We are optimistic about our ability to achieve our stated long-term return objectives over the next couple of years.
With that, we'll be happy to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Matt Carletti with Citizens JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I just had a couple of questions on the Personal Lines segment. Jack, you spoke about it a bit in your opening comments. I think I heard you say that both auto and home are kind of at target margins on a written basis. With that in mind, can you give us a little bit of an idea how you view kind of the progression of kind of returning to PIF growth over the next several quarters? Or it feels like we're at an inflection point. Maybe I'm getting that wrong.

John Conner Roche
President, CEO & Director

We definitely are moving forward with additional offense, particularly in those states where we are well past our threshold of hitting the target returns. So I'll let Dick speak a little bit to that. But the way I would have you to continue to think about it, Matt, is we are excited about how quickly we've been able to get our margins back in line and simultaneously enhance our diversification.

So we are going to continue that process of moving to more offense, particularly on new business because our retention ratios have come back nicely. And we've already started to do that in several states to try to move towards more offense but continue to be diligent in the Midwest and, in particular, Michigan so that we get a good balance of production and profitability and accelerate our diversification. So Dick, maybe build on that.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, I'll just echo a couple of things Jack said, and I'll give you some more specifics, but feel very good about the progress we're making against this strategic objective we have of bringing PL portfolio back to target returns while simultaneously improving our geographic diversification. So we're well on the way towards this blueprint that we've created. As you'd expect, our 20 states, we segment them based on profitability and how they contribute to our CAT profile. So we already have a handful of states where PIF has earned positive and where we feel the new business engine can be -- has been turned on more aggressively.

But as a full enterprise, when you look at all 20 states, we -- you can expect PIF shrinkage to moderate into next quarter and then really throughout 2025 and see some very modest positive PIF growth by the end of the year or at the end of the year. So just couldn't be prouder of our team and their execution. I think it's -- I'd like to say it's one of our super powers that we have here at Hanover, just how we collaborate with our agent partners and get them onboard with the action plans we have.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. That's very helpful. And then one other, if I could, sticking with Personal Lines. I think we view kind of your kind of peak CAT exposure, if you will, as SCS or spring weather, however you want to think about it. And you guys obviously have been undergoing, not just rate, but I'm thinking more of like the non-rate actions, the deductibles and things like that. And we saw some improvement in kind of the second quarter versus 2023 second quarter, and we were kind of middle innings of those changes working through the portfolio. And it feels like we'll be kind of at the end of the game or very close to it by this coming spring. Can you give us a kind of order of magnitude, if it's possible, if ex event were to happen, whether that's spring -- second quarter '23 kind of when you get to the end, maybe that second quarter '25, how that same event would look different once you get all those changes through the book?

John Conner Roche
President, CEO & Director

Yes, Matt, this is Jack again. Listen, we -- you're right in that by April of next year, we will have been through the renewal cycle of our deductible changes, which are particularly meaningful in the Midwest, where the severe convective storms have been most prevalent. So that is true. We will be at a dramatically improved place with our portfolio with the pricing that we've achieved, the full insurance to value enhancements that we've had, deductibles that not only include all peril deductibles at 2,500 but 1% and 1.5% wind deductibles -- wind and hail deductibles in that region and then some PIF shrinkage that we manufactured during this period.

So the combination of all those are going to be meaningful. But I know it will frustrate you. Modeling previous storms or thinking about it really doesn't, I think, achieve the goal. The way we try to look at it is we run our simulated models, and we ask ourselves overall how much benefit are we getting from that property aggregation management and the new pricing and terms and conditions. And I think the only fair thing we can say to you is that it will be meaningful. It will be significant in any storms that come across us in 2025.

Operator

The next question comes from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

First question on some of the commentary about setting your liability picks higher. I believe that was in Core Commercial. How do we think about that when we also hear your commentary about the underlying Core Commercial loss ratio being a bit worse, but you said most of it was because last year was just -- you had cited being exceptionally better than expected. So I think I could probably do some math on your implied 4Q guide, too. So I'm trying to get at are you -- should we expect a bit of a higher underlying in order to embed conservatism on liability given the environment?

Jeffrey Mark Farber
Executive VP & CFO

So Mike, in the third quarter, we had a loss ratio of 58.2% and 57.4% year-to-date. And those are both right on our expectations. And that compares to 56.3% for 2023 quarter and 55.7% for the sequential quarter, but those were both super low on unusually low large losses. And we mentioned those in those quarters. The 1.9 points of higher loss ratio was -- 1.6 of it was due to the lower large losses in the year ago quarter. So a relatively small amount was the loss picks for the liability trends.

I think overall, we believe 57% to 58% is the right level for 2024. That may improve a little bit next year because we're getting 12-plus points of renewal price change versus overall core trend. But I think generally speaking, we feel really good about our balance sheet, about our loss picks. And if you look back at Page 6 of our earnings deck, you'll see we provided an awful lot of information as to why we feel that we'll be relatively advantaged on liability loss trends, biggest issue being the frequency benefit, which is the bottom right corner that we're seeing for lower frequency in a lot of the industries in which we participate, which is dramatic.

Michael David Zaremski
BMO Capital Markets Equity Research

Interesting. Okay. Then maybe just sticking with liability lines, commercial, not Personal Lines. Can you talk about any puts and takes on reserve releases? Most of the industry still has been kind of adding a bit to some of their GL umbrella commercial auto lines. We see the overall was redundant again. But any puts and takes we should be thinking about?

Jeffrey Mark Farber
Executive VP & CFO

Nothing really major. As we said, PL was minimal favorable. CL was 3.6 million with favorability in all 4 major lines. So you didn't have dramatic issue with workers' comp covering up the other liability lines. They were all favorable as we've had the frequency benefit in a variety of areas, helping us to overcome severity. And then Specialty was our big contributor with about 10 million largely on the professional executive lines, and those are claims made shorter-type tail policies.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. Okay. And since you pointed out Slide 6, which is an interesting slide, thanks for adding that. I think you added that at KBW and updated it here. So we can see that your mix points to less -- I guess, a little less liability than others. You also show contractors frequency being up materially, while frequency is down materially for most other industry classes. Would you say that you're also underweight contractors? I don't know if there's a way to even size up what the industry looks like on contractors. But is contractors a continued source of higher frequency only? Or is it -- anything going on, on severity, too, in any of these industry classes?

John Conner Roche
President, CEO & Director

Yes. So Mike, this is Jack. I'm going to let Dick comment on specifically our profile in Core Commercial, including contracting percentages. But I think you're thinking about it exactly right, right? We share the same severity as the industry. We're seeing similar trends to a lot of other folks. But our book composition as well as the actions that we took in the last few years, I think, are advantaging us particularly on the frequency of the severity.

And then what that chart shows you that Dick can kind of build upon is that the noncontracting classes of business are predominantly showing the improvement based on the actions that we took, but the construction business continues I think, for 2 major reasons, a, the inventory of claims is pretty fulsome since most contractors work through the pandemic. And because of the activity levels, the frequency is just it's not coming down like we're seeing in other sectors of the business. So Dick...

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, just a little color commentary. So we have been super thoughtful about how we built our construction portfolio over the years. Today, it represents a fairly modest portion of our core CL portfolio, really in the low teens percentage, and been very thoughtful about state mix, which is really important when you're talking about this industry, the legal environment, construction defect environment and then also thinking about and tightly managing the subsectors, the types of contractors that you write, which is equally important to state mix. So just have been very thoughtful about all of that. And then, of course, Risk Solutions and premium audit play a critical role in this segment. And we're -- we do both of those exceptionally well.

John Conner Roche
President, CEO & Director

Matt, you probably noticed, as others have, that we have no Y axis or vertical axis on that chart. And I wanted to share a little bit of information. So while Dick said contractors are relatively small, think 10% to 15% of our portfolio relative to others in the industry, the bigger portfolios, contractors frequency is up single digits where some of the other industries would have frequency declines since 2019 through 2023 in the 20% to 30% range. So when you think about all that together, in total, we have a pretty substantial frequency decline.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. That's helpful. And maybe I'll just sneak one last one in on just the overall competitive environment. So there's -- a number of companies have reported, some of your peers, and everyone has different -- a little different mix and geographic mix as well. But it looks like pricing has been kind of sequentially accelerating a little bit. But there's also some conflicting kind of industry surveys that show pricing decelerating a little bit. And so just curious what, from a competitive environment, would you say the -- from what you're seeing, is the increase you're seeing more on Core Commercial Hanover specific? Or is the industry, do you think, pushing through a little bit more rate? And if they are, what's driving that?

John Conner Roche
President, CEO & Director

Yes. I think as you're observing, Mike, this is -- there is a bit of a sectoral view there and an account size view. And I would tell you that in the small to lower middle market area of the business across the sectors that we play in, we are seeing a flattening of the property pricing but a -- as things are improving but an increase in the liability pricing, which is appropriate given the environment that we're seeing.

So I think when you get into the larger accounts, there's a lot more pressure. And you're reading about that. You're seeing that. And I think Bryan can even speak to that within the Specialty portfolio that we're still generating double-digit pricing overall. But within the 9 businesses within Specialty, we clearly have variances and differences that represent a competitive marketplace. Bryan, do you want to say a few words on that?

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. So to your point, in some of our environments, it is pretty competitive, if you think about the professional lines marketplace. That said, we have been getting very, very good rate on that business for a number of years. It's highly profitable. And so yes, we're adjusting, right, thoughtfully to be competitive in that space. In other areas, we're continuing to see that the need for increased rate, accomplishing rate. I think about that in the E&S environment, for example. So it's -- there is a real mix there. And we balance that mix. We navigate that mix in our different marketplaces.

Operator

The next question comes from Michael Phillips with Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

I want to go back to one of the earlier questions. Jeff, your answer on the core commercial. You said around 57, 58 feels about right. Maybe you could improve a bit in 2025 given the pricing levels that are north of 12%. I guess -- and you talked about strong price in both property and liability. But I'm wondering how much of that possible improvement in 2025 could be one or the other, property versus liability. Can you kind of parse that out?

Jeffrey Mark Farber
Executive VP & CFO

So what's happening is, for the last couple of years, property pricing has been stronger than liability. Core has been strong overall, and the loss trend was heavier in property. Now we're seeing the cost of materials, building, et cetera, begin to slow a little bit. So the need for price around property and core will slow. And our view on liability pricing will increase. And we're an account writer, so we think about it in total across the portfolio, and we believe that we're maintaining or increasing our profit along the way.

John Conner Roche
President, CEO & Director

Yes. And I would remind you, Mike, that as you study this, that the companies such as ours that have really done a good job on insurance to value are really in the catbird seat in that we have that part of the pricing equation in a really good place and can start to have more nominal increases. And that allows us to be competitive for the good businesses. Some of the competitors, a lot of the regional companies that were told are still catching up, and they have to catch up on insurance to value or their reinsurance challenges get worse.

So I think that puts us in a really good situation that property is improving. Liability, we're watching carefully but continuing to perform well. And I like the combination of that in a market that we'll continue to kind of figure out where exactly the loss trends are going in liability and how severe they're going to be for -- particularly for those that didn't do what they needed to do on the reserve side.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. Okay. If we look at the premium growth in Core Commercial, the CMP down this quarter, and I assume that's because of your comments you said about middle market and kind of underwriting actions you've taken there. I want to make sure that's the case. And if so, then you said you expect kind of that to improve over the next few quarters. So -- and was that also sort of specific to what we see in CMP this quarter at 1.8 and maybe that could improve from here?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. This is Dick. Yes, that's exactly right. There's a little bit in there about some of the actions we've taken. And then on the new business side, it can be -- you can see lumpiness quarter-to-quarter on a line basis. But we expect, as the prepared remarks earlier suggested, that middle market will make its way back to that mid-single-digit kind of growth into next year.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay. Good. And then just lastly, maybe just more high level. A lot of your stuff that you're talking about is strong, and you've improved personal, and you talked about that it's been on an earned basis for homeowners next year. And your Core Commercial is coming along quite well, and you said it could improve even there in 2025. So lots of improvements. So hats off to that. I guess as you put all that together and think maybe capital management, how do you put all that together and think maybe it's time to look at some share repurchase for next year?

Jeffrey Mark Farber
Executive VP & CFO

Yes. We're very bullish on our opportunities for improvement, particularly in personal lines, NII and even CAT for the reasons that we've talked about. We definitely are supportive of routine regular dividend growth and buybacks along the way, along with organic growth, which will ramp up in the fourth quarter and in 2025. We haven't bought stock back in a while. We typically wait for the end of wind season. I think we're likely to be back to capital management sooner rather than later.

Operator

The next question comes from Meyer Shields with KBW.

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

Sorry. Is that better?

John Conner Roche
President, CEO & Director

Yes.

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

Yes. Okay. Yes. I was muted. Sorry about that. Okay. When we look at the gap between pricing and rate in Core Commercial, I guess I was a little surprised to see that gap expand, which means more exposure unit growth just because that hasn't been the case for most insurance companies. Is there anything unique going on at Hanover that would drive that exposure unit growth?

John Conner Roche
President, CEO & Director

[2.9].

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Meyer, what we may be witnessing, the exposure growth in the work comp side of things has been robust. And so you see the distance with what exposure looks like versus what rate looks like. As you know, the rate in work comp is flat to down, depending on the state.

John Conner Roche
President, CEO & Director

The delta between rate and renewal price over the 5 quarters, if you look at Page 7 of our earnings deck, has been pretty consistent over time. But we can certainly get back to you if there's a deeper story there.

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

Yes. No, there's small differences. I don't know if they're significant. That's really what I was asking. Second, a couple of questions on auto. First, I probably should know this, but you've talked about higher deductibles in Personal Lines. Is that actually -- is that relevant to personal auto, too? Or is that more on the home side?

John Conner Roche
President, CEO & Director

I'm sorry. Personal auto deductibles, for the most part, it's nowhere near as improved, if you will, but we continue to inch up deductibles in PL auto.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

We do. Yes, we've given ourselves a thorough review state by state and where we feel like it's been modest. You have a lot of business that's been on the books for a long time, and they might be sitting at a $500 deductible. So we've -- and our agents are fully supportive of this. We work with them to over time inch those upwards to $1,000 and whatnot. But the bigger push has been on the home side.

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

Okay. Perfect. That's helpful. And then finally, I know in the past, we always talked about new business penalty when growth ramps up, and this is again on the personal auto side. As pricing becomes more significant, is that as relevant to concerns? Does a ramp-up in growth, all else equal, imply some loss ratio pressure in the near term?

John Conner Roche
President, CEO & Director

We're in an unusual time in the Personal Lines business where there was actually a period in certain states where our new business pricing was above our renewal levels. And that's hard to do given the renewal pricing that we were pushing through. But as you know, we were trying to create some changes in our growth patterns by state. So we kept pushing pricing in our point-of-sale system until we got the results that we were looking for.

So I would tell you, based on what we're seeing today, we don't -- we're not anticipating a significant new business penalty anytime in the near future. The quality of the business that we're writing in new business -- I mean, in Personal Lines, because we narrowed the nozzle, is the best it's ever been. And it's coming through at renewal pricing. And so as we start to move forward and widen that nozzle a little bit and get a little bit more competitive, I think it's going to be commensurate with the loss trends and the improvements thereof. So I like our trajectory for the foreseeable future in Personal Lines.

Operator

The next question is a follow-up from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Real quick. I don't think this is in the earnings release or the deck. I'm trying to -- Jeff, I think you said the updated guidance for the year was -- ex-CAT combined ratio, I think you said below 90, 91, not the 90 to 91. Just wanted to clarify that.

Jeffrey Mark Farber
Executive VP & CFO

That's correct. I think we are in the high 88% range year-to-date. So it would be very difficult to see deterioration. Fourth quarter is always a strong quarter for us, and we have no reason to believe not. So we haven't updated guidance per se, but clearly, we expect to be below the 90 to 91 that we originally guided to, Mike.

Operator

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

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you very much for listening in and participating today. We are looking forward to talking to you next quarter.

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