S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

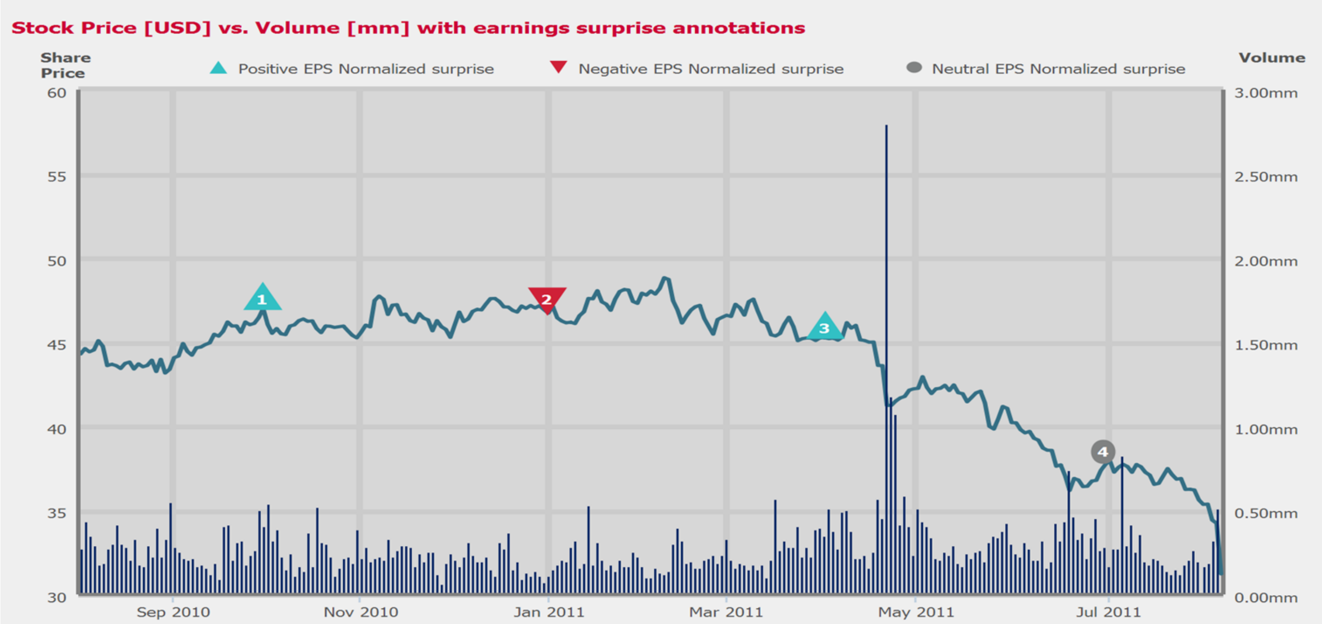
FQ3 2011 Earnings Call Transcripts

Thursday, November 03, 2011 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.44)	(0.41)	NM	0.96	0.23	4.07
Revenue (mm)	1092.67	1051.00	(3.81 %)	980.12	3716.89	4201.19

Currency: USD
Consensus as of Nov-03-2011 12:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	0.93	0.98	5.38 %
FQ4 2010	1.05	0.95	(9.52 %)
FQ1 2011	0.50	0.53	6.00 %
FQ2 2011	(0.56)	(0.84)	NM

Call Participants

EXECUTIVES

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

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

Oksana Lukasheva
Vice President of Investor Relations

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

ANALYSTS

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

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

Mariza F. Costa
Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Welcome to The Hanover Insurance Group's third quarter 2011 earnings conference call and webcast. Please also note that today's event is being recorded. I would now like to turn your conference call over to Oksana Lukasheva.

Oksana Lukasheva
Vice President of Investor Relations

Thank you for joining us for our third quarter conference call. Participating in today's call are Fred Eppinger, our President and Chief Executive Officer and David Greenfield, our Executive Vice President and CFO. Also with us today is Bob Stuchbery, President of Chaucer. Before I turn the call over to Fred, let me note that our earnings press release, statistical supplements and a complete slide presentation for today's call are available in the investor's section of our website at www.Hanover.com.

After the presentation we will answer questions in the Q&A session. Our prepared remarks and response to your questions today, other than statements of historical fact include forward-looking statements such as segment income per share for 2012 and for the fourth quarter 2011. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call. We caution you with respect to relaying on forward-looking statements and in this respect refer you to the forward-looking statements section in our press release Slide Two of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as total segment income, after tax earnings per share, segment results excluding net impact of catastrophes and development, ex cap loss ratio, and accident year loss ratios among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measures on a historical basis can be found in the press release or the statistical 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

Welcome everyone to our third quarter earnings call. For the third quarter of 2011 we reported a net loss of $9.7 million or $0.21 per diluted share. Our book value was $54.98 per share, slightly above our year end 2010 and last year's results. Obviously, the quarter was disappointing based on the continued adverse weather we have seen, but we see positive trends in continued strategic momentum in our business which I will discuss on this call.

As you recall, we completed the acquisition of Chaucer on July 1st so our results for the quarter include the benefit of Chaucer's earnings. I will begin the call by providing an overview of our operations and trends and offering thoughts on the outlook of our US and Lloyds businesses for next year. David will then spend some time reviewing our operating results and certain balance sheet items.

Unfortunately, Marita is unable to join us on the call at this time because of a death in her family and our thoughts are with her and her family. David and I will handle any questions about our domestic P&C business and underwriting performance during the Q&A portion of the call. We are pleased to have Bob Stuchbery, the President of Chaucer with us today. He will be available to answer questions you might have about Chaucer operations during the Q&A portion of the call.

Before getting into our performance for the quarter, I did want to mention that our first four months or so together with Bob and his team have gone extremely well. We could not be more pleased with the quality of the business and the capabilities that the team brings. Bob, would you like to say a couple of words of introduction?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

I'm pleased to join you all for our first earnings call together and I'm very excited about Chaucer future as part of The Hanover. The first three months have been dominated by efforts to integrate Chaucer into The Hanover and good progress has been made to date. We've retained our key team members so you can see how being part of The Hanover gives a firm base on which to develop our business further.

Our brokers have also responded well to the transaction, recognizing the added strength that being part of a larger group brings to them, and looking further head I remain confident that the specialty capabilities that Chaucer makes available will help The Hanover to be even more relevant to their US agency distribution in the future. I've always believed that both Chaucer and The Hanover will benefit from the geographic, and earnings diversification, and increased [style] we have together. This will support our continued growth and success. I look forward to taking any questions you might have later in the call and to meeting you all in person at our investor day.

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

Let me go forward here. The earnings power of combining Hanover and Chaucer was overshadowed this quarter by unprecedented weather losses in our US business. However, we already had begun to realize the benefits of the acquisitions as evidenced by the contribution of Chaucer to our business mix and earnings.

Obviously, our focus over the last five years has been to better diversify our business and create a more attractive and distinctive product portfolio that positions us to get preferred shelf space with the best agents and brokers and achieve higher financial returns through the cycle. While we did not fully anticipate the last three years of more severe weather we are pleased we entered this more difficult environment with our new mix that is more focused on higher margin lines and more balanced between property and casualty. And with the current business mix of roughly a third specialty, a third core commercial, and a third personal lines that is more differentiated and positions us well for more attractive returns over the long term.

We continue to make progress on all our strategic priorities but as I said in my opening remarks, our bottom line was disappointing this quarter driven by continued above normal weather related losses as well as an addition to reserves and surety. Before I go further I'd like to comment on these two areas.

The industry has been plagued by unprecedented CAT losses across the United States this year and the world for that matter, with our experience being only a bit more favorable than most in our industry. Since 2005, along with a significant portfolio change we've made good progress on managing our compensations and reducing coastal exposures and particularly as we exited the Florida homeowner's business and as we reduced property exposures in Louisiana, Rhode Island, the coastal New England area. And as you know, for the last three years we've spanned out our biggest areas of concentration in Michigan and Massachusetts.

Beginning in 2008 however, events of a different nature have been challenging our company and our industry. The most significant of course, have been the tornados, the hail storms, and the [straight fine] wind. We've always followed a very strong underwriting practice around property aggregation. In response to these recent weather events we are executing on a strategy or more aggressive aggregate exposure thinning through pricing and non-renewals of certain properties associated in areas of our greatest concentration.

We have also been consistent in our pricing discipline as demonstrated by consistent five plus rate increases in personal lines over the last two years which we believe gives us a nice head start over the industry in general. But going forward we have increased loads for CAT exposures as well as non-CAT weather in our pricing models. Additionally, we are working on reducing potential exposure to weather losses by adjusting coverages and deductibles. We believe a combination of all these measures will help mitigate exposures going forward.

The surety line is one of the businesses in our specialty area that we've had for a very long time and there's a portion of it that is booked that is more sensitive to weakness in the economic environment. We had some loss activity in the contract in and we are putting up reserves to reflect a more conservative outlook on a small portion of that book. I believe we have made the necessary underwriting changes to address the issues we are facing and I am comfortable with the mix of new business that we are attracting today.

In the rest of our portfolio, putting aside weather, we generate balanced financial results and continue to make progress towards our long term targeted returns. We continue to execute on our top priorities which we believe will drive improved profitability. In particular we have been improving our business mix by growing in the right places, taking rate actions, gaining scale in our specialty businesses and being thoughtful about capital management.

Our overall property and casualty net premiums surpassed a billion this quarter, a growth of 31% as we included a full quarter of premiums of from Chaucer in our reported results. Additionally, we had growth of 3.1% in our domestic P&C business which was driven by 5.6% growth in commercial lines and 0.5% growth in personal lines.

In personal lines, premium growth turned positive this quarter and reflected filed rate increases of 5% in auto and 6% in homeowner's. Our retentions improved almost two points from last quarter even though we achieved above industry rate increases. We believe this is a testament to our strong business mix, our account focused strategy and our strong agency partnerships.

We continue to gain scale in our domestic specialty businesses in the quarter. The business grew 12% compared to our prior year quarter and we are very pleased in the growth and quality of our specialty portfolio. Today, our US specialty offering encompasses a broad range of products including miscellaneous professional liability, private company D&O and our program business. The businesses are maturing nicely and significantly enhance and diversify our portfolio.

In our core commercial lines we saw a notable improvement in market trends as we achieved pricing gains in all lines for an overall pricing increase of over 3% during the third quarter and our overall growth was 4%. We remain pleased with the trajectory of our rate increases as we put up fourth consecutive quarter of rate increases behind us. We are seeing increasing momentum in our small commercial offering and our industry niches as well.

Our overall growth however, was tempered by a combination of still inadequate pricing in some industry segments and our thoughtful approach to property exposures. We believe the long term benefits of this prudent approach to grow outweigh the short term impact on our top line. Our business mix in the US continues to move to a more desirable casualty and specialty oriented profile and our specialties now comprise 19% of our US portfolio offering.

The acquisition of Chaucer represents a significant step forward towards achieving our overall mix and profitability goals as was demonstrated by our third quarter results. Chaucer generated significant premium and contributed to our shift towards specialty. Specialty lines in our consolidated operations including Chaucer now represents 29% of our total net written premiums. More importantly with pre-tax segment earnings of $20 million, the inclusion of Chaucer's results this quarter as improved our combined ratio by almost four points.

In general, during this first quarter together with Chaucer, we were impressed by both the quality of the team and the high level of the underwriting expertise. With a more promising market environment now in view, we are confident that this will enable Chaucer to make a valuable contribution to Hanover in the future.

Finally, a couple of thoughts on our fourth improvement lever, capital management. We continue to make changes to our capital structure during the quarter by repurchasing $30 million of outstanding debt and at the same time, considering the current low equity valuations, we repurchased 574,000 shares or $20 million worth of our stick on the open market.

While we believe investments in organic market opportunities represent a better use of capital for our investors in the foreseeable future, we will continue to consider share repurchases depending a variety of factors and timing. Before I turn the call over to David, given that this is our first quarter reporting with Chaucer, I'd like to comment on the market and our company's outlook for 2012 as well as the remainder of 2011.

We believe the industry dynamics next year will be all about getting ahead of the more active weather and minimizing the impact of lower investment yields through aggressive pricing actions and solid risk management. Over the past several quarters the increased level of weather activity has served of a reminder to the industry, calling attention to the need to appropriately price for weather events. We believe there will be an opportunity to continue to achieve additional rate increases on personal lines in 2012.

For us, these rate increases coupled with more targeted exposure management actions should enable us to fundamentally maintain the current level of net premiums while improving our profitability in 2012. In commercial lines, persisting and accelerating rate increases and the improved new business [indiscernible] provided an indication of improving market conditions. However, we will continue to be cautious and take targeted actions to continue to rebalance our book.

Given this balanced approach, we expect growth in our specialty lines and a moderate lift and core commercial will drive net written premium growth in the mid single digits next year with improving profitability. With respect to Chaucer's business, we respect that recent worldwide catastrophes will help push rates and property in marine lines higher and that our international business will benefit from this lift.

In UK Motor rates have been improving for some time and we are planning for more rate increases at a moderate pace next year. With that said, thoughtful adjustments of our risk appetite in certain Chaucer businesses will likely moderate top line growth next year.

As I mentioned earlier, we are including a higher assumption for catastrophes and weather in our earnings forecast for next year. For catastrophes we are going from roughly 4% of premiums to slightly over 5% of premiums for the entire portfolio with the majority of the increase being driven by our domestic business. Although there is a respected increase in catastrophe loads in our pricing models, we believe it will take some time to earn in.

We also expect reserve releases from prior years to slightly decline year-over-year. Given this outlook for our business, our early view of segment income in 2012 is in the range of roughly $3.85 a share and $4.15 per share with an assumption of 45.5 million shares. Consistent with our 2012 outlook, we have also refined our expectations for both catastrophe activity and non-CAT weather for the fourth quarter. As a result of that view, segment income for the fourth quarter is roughly in a range of $0.95 a share to $1.05 a share assuming catastrophes of approximately 4% to 5%.

As it relates to the October weather activity, it is too early to reliably estimate for losses. We will go through our outlook in more detail at investor day while providing you more insight on the key elements of our strategy. Overall, despite the industry and economic headwinds, we remain very excited about the capabilities we have built at the Hanover and our ability to improve earnings. While we have more work to be done, we now have a more attractive and diversified portfolio that will allow us to deliver distinctive offerings to winning agents and more consistently generate attractive returns throughout the cycle.

I will now turn the call over to David who will discuss our business segments in greater detail.

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

Before I get into the results, I want to mention a couple of items relating to Chaucer. We closed the acquisition on July 1st and you'll notice we now have a new reporting segment for Chaucer. Chaucer is included in our results for this quarter but not for any period or as of any date prior to July 1st 2011. This makes analysis a bit more challenging when looking at the current quarter and year-to-date figures as compared to prior periods. We have endeavored to provide some help with this in our disclosures and commentary.

In particular, we separately posted a pro forma supplement that provides additional Chaucer information for the first half of 2011 and the year ended December 31, 2010 consistent with the figures we provided in an 8K in September. We hope this will be helpful to you as you analyze Chaucer's contributions to our overall results.

As Fred mentioned, the third quarter of 2011 was impacted by catastrophe losses, non-CAT weather related losses and a surety reserve addition. Otherwise, our business continued to show performance gains during the quarter with improving underlying profitability in most businesses. The net result however, was a loss of $9.7 million or $0.21 per diluted share for the quarter compared with net income of $52 million or $1.15 per share in the prior year quarter. On a segment income basis, the net loss was $18.5 million or $0.41 per diluted share this quarter compared to segment income of $44.7 million or $0.98 per diluted share in the prior year.

Turning to the top line, for the quarter, net premiums written surpassed $1 billion as we achieved growth in commercial lines of 5.6% and added $222 million related to Chaucer. This compares with $804 million in net premiums written n the third quarter of 2010. Our combined ratio of 107% included 10 points of catastrophe losses and approximately three points related to non-catastrophe weather related losses in the US. Favorable reserve development in the third quarter was $29 million reducing our combined ratio by approximately three points.

I'll now run through the quarter underwriting highlights for each of our business segments. Starting with commercial lines, the combined ratio for the commercial insurance operations was 114% in the third quarter compared to 99% in 2010. The current quarter included 10 points of catastrophe losses compared with 2.3 points in 2010. Our ex CAT results were impacted by two items, non-catastrophe weather related losses which added over two points to the combined ratio and approximately $15 million of reserve increases in our surety book of business which accounted for nearly four points to the combined ratio.

Additionally, the third quarter of last year reflected unusually benign large loss results in the commercial multi peril lines. Aside from these items, our accident year results were generally in line with prior trends and our expectations. Favorable development on prior year loss reserves reduced the combined ratio by .9 points this quarter which reflects the favorable impact of reserve development in our worker's compensation and commercial multi peril lines and compares to 4.6 points of favorable development in the prior year quarter.

During the quarter we took note of increased loss activity in our surety line, particularly in the construction sector. Overlaying the persistent challenging economic conditions to the increased loss activity, we felt it was prudent to add approximately $15 million of additional reserves to this line in the quarter. Approximately $9 million of which impacted the current accident year and $6 million which was prior year development.

By way of background, a few years ago we made changes I our strategy for this line emphasizing more stable and profitably commercial surety business versus economy sensitive contract business. We adjusted underwriting standards such as establishing a more sophisticated risk scoring system. At the same time we identified a portion of the book that we put in runoff which continues to drive our loss experience. We are confident that over time our surety business will be an important and profitable part of our specialty business.

Our expense ratio in commercial lines improved three points this quarter compared to the prior year quarter. The improvement is coming from earning in last year's growth combined with changes in our operating model. The ratio was flat compared to the second quarter this year and this was in line with our expectations.

In personal lines, catastrophes and non-catastrophe weather drove lower results in the quarter. Catastrophe losses represented 13 points of the combined ratio while non-CAT weather related losses add

4.5 points. We continue to see positive rate increases. Our expense ratio in personal lines is approximately 27% which is in line with our expectations and comparable to the prior year quarter.

Our new Chaucer business segment delivered segment income before taxes of almost $20 million in the quarter. The combined ratio was 97.1% reflecting good underlying performance. Catastrophe losses in the segment primarily related to the July floods in Copenhagen Denmark and Hurricane Irene, or $14 million this quarter or 5.6 points on the combined ratio. This is slightly below our expectations for CAT activity in the quarter. Chaucer also had 6.8 points of favorable development on loss reserves primarily coming from the energy line of business.

Chaucer's expense ratio for the quarter was 39.1%. This ratio was slightly elevated from a normal run rate given certain integration and related costs which we expect will continue for the next several quarters. With rates now increasing for North America and international property exposed risks in response to heavy first half losses, the outlook for Chaucer's property account is encouraging. In fact, most of Chaucer's businesses are experiencing improved pricing levels which you can see on page seven of the slide presentation. Overall, in a challenging underwriting environment, we are pleased with the disciplined underwriting and more favorable market trends appearing in the Chaucer segment.

Moving on to a discussion of net investment income. Net investment income was $68 million for the current quarter, a 10.6% increase when compared with the $61 million earned in the third quarter of 2010. This increase is primarily driven by an increase in cash and invested assets associated with the Chaucer acquisition. At the time of the acquisition, Chaucer's cash and invested assets totaled $2.4 billion which included approximately 30% in cash.

During the quarter we redeployed a portion of this into fixed maturities securities that resulted in a lift of about 40 basis points in Chaucer's standalone portfolio. For the third quarter the overall earned yield on our fixed maturity portfolio was 4.49%. The Hanover's fixed maturities yielded 5.31% and the Chaucer assets delivered 2%.

Obviously, our portfolio is not immune to current lower new money yields. However, our Hanover fixed maturity investments have a strong persistency of yields as only about 10% of the portfolio turns over each year. We expect we'll continue to pick up yield in Chaucer's portfolio as we continue to reposition their assets. At September 30th we held nearly $7.6 billion in cash and invested assets.

As you may expect, a portion of Chaucer's investment portfolio is denominated in foreign currencies in line with the international nature of their insurance liabilities. This said, Chaucer has negligible exposure to peripheral European sovereign debt. The exposure to European banks, excluding the UK is only about $137 million or 1.8% of our total portfolio, while exposure to corporate credit in other sectors is 2.7% of the portfolio. These securities are high quality and diversified by sector, country, and issuer.

Our balance sheet remains strong giving us financial flexibility. We ended the quarter with nearly $2.5 billion in shareholders' equity. Book value per diluted share at September 30th was $54.98 compared to $54.74 at December 31, 2010. Additionally, looking forward, the change in accounting rules related to deferred acquisition costs which will become effective on January 1, 2012, will have an after tax impact of approximately $25 to $30 million or about 1% of our opening shareholders' equity. We do not expect the adoption of this change to have a material impact on our earnings.

On the capital management front, we continue to actively manage our capital position. During the quarter we took advantages of opportunities to deploy excess cash into share repurchases through open market transactions. Since July 1st, we repurchased 595,000 shares at an average price of $34.78 for a total spend of $20.7 million. This includes a small amount of repurchases that were made in October. We now have $136 million remaining in our share repurchase program.

Additionally, we continue to take advantage of opportunities to reduce debt. We retired $30 million during the quarter. Our debt to total capital ratio was 26.9% at quarter end which continues to be well within rating agency thresholds for our current ratings. Holding company cash and investments were $239 million at September 30th which is moderately above our target level. We also now have in place, a $200 million credit facility that provides additional flexibility to meet liquidity and capital needs.

Before we open the line for questions, I would like to remind you that we will hold our investor day meeting on Thursday, November 17th in New York City at the Affinia Manhattan Hotel right across from Penn Station. At the meeting, we will discuss our business strategy and product capabilities. Additionally, we will give you an overview of Chaucer's business and we will talk about the progress we are making with our agency value proposition. We will start the presentations at 8:30 am and will be followed by Q&A and an informal lunch where the presenters and several of our senior executives will be present.
Operator, we're ready to open the line for Q&A.

Question and Answer

Operator

Your first question comes from Cliff Gallant from KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

A couple of number questions but then I wanted to ask Bob a couple of questions. The numbers were one, in terms of the tax rate what you would be thinking going forward? Then two, I wanted to ask about the growth in commercial lines and the 5% to 6% and how much of that was PIF versus price?

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

On the tax rate Cliff, this year with the size of losses and some of the international impacts we have a rate that's roughly around 30%. We use a slightly higher rate in our planning on a go forward basis. We tend to use 34% and obviously that's going to be refined as we get into planning for next year and factor in some of the intricacies of the international tax code. But I think for purposes we're using 34% at this point.

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

In the specialty business, Cliff, that growth is both PIF and we're getting some rate as well but it's more of a PIF oriented. In BI or the core lines, business insurance, we grew about 4% and we had rates of about 3.3% to 3.5%. So we had a good rate and what you see is it's a tale of two cities. We had tremendous momentum with our partner agents but we did some thinning. As I mentioned, what I've been trying to do, the marginal cost of capacity given the change in yields I think in some of our concentrated areas around property is such that we started being relatively aggressive about thinning some of the non-partner agent business in some geographies in the property stuff. I see really good about what you are seeing. You're seeing really nice both unit growth and rate growth with our partner agents. So that's kind of the story there.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

I wanted to ask you one quick question, what do you expect exposure to the Thai floods would be? But then more as a larger question, can you just comment on what you're seeing in terms of the benefit of the Chaucer operations to be with Hanover and its distribution here in the US?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

First of all on the Thai floods. Yes, we do have exposure to the floods in Thailand and we'd expect to get a loss from these events but it is very, very early days to put any number on that loss. As you'd expect, we have a budget for CATs in the quarter and we'll just monitor as we go through. It's an event that's happening at this moment so it's very difficult to put numbers on it.

The benefits, turning to that obviously, we see benefits longer term. The crux [ph] of this first quarter has been really about our integrating into the group. We're already quite advanced on our 2012 planning and Hanover had input to that. What we would see now over a period of time is that extending into some of the benefits we can get group wide and that's really a 2012 issue for us leading probably more into the 2013 business planning. But there will definitely be benefits.

Operator

Your next question comes from Dan Farrell from Stern Agee.

Daniel D. Farrell

Sterne Agee & Leach Inc., Research Division

I was wondering if you could comment on your view of accident year ex CAT loss ratio trends for the various segments within the scope of your overall guidance. And then in particular, there's a lot of things that I think, mix changes and others that could be having a benefit, but there's also the issue of non-CAT weather that creeps in there as well.

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

I would tell you, the non-CAT weather quarter-over-quarter for us is probably a three point impact this quarter so it was very significant Midwest, Northeast actions. Our accident years, I actually feel very good across the board on accident. We've been getting rate almost in all of our businesses now, including Bob's and ours, the vast majority of all our businesses we're now getting rate in excess of what I would see as loss cause. A little bit of healthcare, obviously trends, which is why I'm so cautious about comp and being a little tougher on comp particularly anything that's outside of the small category.

The one exception to that has been what I said, which is on property. What we see is I feel very good about the rate we're achieving right now but we have to do some reunderwriting and thinning in some areas. The reason I believe that is that our marginal cost of capacity in some of the places where we have high concentration given the model changes and our perspective on the weather, that our marginal cost in that capacity is higher than our competitors. And so we're not going to get that adequate rate to get the 12% that we want and so we're shedding some of that.

But again, it's a little easier for us because of our partner strategy. I can take some legacy partners and eliminate them, or legacy agents. I feel pretty darn good about our accidents. One of the differences between us and almost the vast majority of our competitors, a lot of people had a lot of their earnings based on 2003, 2004, 2005 releases. The fact of the matter, we weren't very good back then so we haven't had much releases. Almost all of our releases are more current and what I call mechanical coming from more current accident years because we are a little conservative in our picks and then they get released through the next 18 months.

So I feel very good about where we are in almost everywhere about our accidents. Now again, I think we've got to chase the yield a little bit as I mentioned. I think we're assuming as we look forward, our assumption is that these yields will stay at a lower level and therefore we need to get more rate to get to the kind of returns I want and that's something -- that's what I'm saying, we're baking into our rates and we're really being quite a bit more aggressive in some of the lines. Now our advantage is we have short tail lines so it's less leverage than others that have longer.

But again, I'll tell you, our accidents I feel stable across all the businesses. The new businesses are developing just the way I expected. And as I said, I feel very good about the breadth of the rate increases we're getting now.

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

Then just a quick one on Chaucer, you've obviously had some growth in the marine and aviation lines but then also in casualty and other line. Particularly in that casualty and other, can you talk about what lines are driving that growth and the opportunities that you're seeing there?

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

Looking at the casualty and other, we took on a new team of people writing international casualty business less than a year ago now and really what we're seeing in the numbers, particularly in 2011, and we'll see this continue into 2012 is that that business actually migrates with them. So in effect, the first few months of their operation we were just getting that business on board and during the course of this year we've seen that grow just as they've moved over some of those opportunities. So it's a new team, it's a complimentary team to the other casualty lines that we wrote. We expect to see that develop, albeit not too strongly though in 2013. That market still isn't good so we're really just taking advantage of known relationships these guys have and bringing them to us.

The marine and aviation, yes the marine was patchy in areas where we've seen some of the losses, particularly on our marine excel account we saw some increases this year. Aviation is just really taking opportunities where we see it. We're not in the airline business so it tends to be more general aviation where we're seeing a little bit more of a better marketplace.

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

And one of the things I mentioned, what we've done is Bob had talked about their strategy and we'll talk more about it in the next couple of weeks about the areas of distinctiveness. What we've done is look through the whole portfolio and said where should we be more focused, where should we back off a little bit? And our expectation is in energy we changed a little bit and we took a little less and we expect a little less growth there and we made some marginal changes in the portfolio. But we feel very good where we are. We put in the package for you where we saw rates so in casualty, as Bob said, we're very cautious there and very thoughtful because while casualty in the US is starting to turn, mostly comp, etc., in other parts of the world it hasn't so we believe that's an area that we're very thoughtful, and cautious, and will be going forward.

Operator

Your next question comes from Mariza Costa from Stifel Nicolaus.

Mariza F. Costa
Stifel, Nicolaus & Company, Incorporated, Research Division

Actually, all my questions are for Chaucer. My first question is about the creep from New Zealand and Japan. I think if I remember correctly, New Zealand was about $30 million and Japan was about $45 million back then. Should we expect any creep up from there given all the increase in estimates that are coming out from those regions?

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

Just to talk a little bit about this and how it runs through our numbers, we anticipated a lot of things in our purchase accounting exercise. We had a view on those events as late as August as we were going through the actuarial analysis. So, much of the impact of the creep, as you referred to it, I would say was built into kind of our opening balance sheet. There was some pluses and minuses that ran through this quarter. I chose not to really get into it because it's actually around $1 million, maybe less than $1 million across a number of different pre acquisitions events like New Zealand, Japan, etc.

I think going forward, obviously any impact of changes in estimates and things like that will affect us on those. I think we're very well reserved for them. It's really a practice that Chaucer has. When you look at their estimates historically you'll find that they very rarely have negative movement on reserving and most likely have positive movement. Although some of these storms were difficult storms to estimate. But I think you should take away from that is we're very well reserved for those events but to the extent there are things that come up it will affect our results going forward but we think they'll be pretty minor or mitigated by the reserving practices.

Robert Arthur Stuchbery
Former Chief Executive Officer and Executive Director

And also mitigated by reinsurance purchases. A number of these major events are now into reinsurance recoverable position and the impact on us will be negligible because it's really just a reinstatement premiums that we pay when we make recoveries. But the major events you mentioned, they should be marginal.

Mariza F. Costa

Stifel, Nicolaus & Company, Incorporated, Research Division

Looking in the numbers you guys gave us last night, it looks like expense ratio in 2010 for Chaucer was about 33% and this quarter was about 39%. How should we think about it going forward?

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

I think, as I said in my comments Mariza, we were 39.1% this quarter with Chaucer. There are some differences in the years. There are integration type costs and other things that are kind of coming through now. What I tried to say is we think the 39 is a good number to use for the next several quarters but I would expect over a longer period of time that rate will start to come down but 33 might be too far down. There might be some things in those numbers last year that offset some of their expenses which we didn't obviously put in there for disclosure. But I think on a longer term basis I think you'd see that ratio down a couple of points at least.

Mariza F. Costa
Stifel, Nicolaus & Company, Incorporated, Research Division

I'm sorry I missed that, you did say for a couple of quarters at least keep the 39?

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

I would stick with the 39 for now and I think a few quarters out, I don't want to give you a number of quarters, but a few quarters out some of the integration things will roll off, some of the project related things that are ongoing will start to roll off and we'll start to see that ratio come down a little bit.

Mariza F. Costa
Stifel, Nicolaus & Company, Incorporated, Research Division

Then my last question, on the FX side, obviously now you have that impact too. But it looks like it's being kept out of operating, is that correct?

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

Yes, there are some impacts of FX and obviously, we're going through that. It's not that significant in the quarter and the way in which we're looking at the underlying business and the currencies, we're fairly well matched so there wasn't enough to come out and talk about it in detail but we'll try and look at that in terms of disclosure going forward to help you with that for understanding but obviously, we want to make sure that doesn't cause wild swings in operating results. But this quarter I don't think you should pay too much attention to FX.

Operator

We are showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Oksana Lukasheva
Vice President of Investor Relations

Thank you very much for participating on the call with us and we are looking forward to meeting with you again at our investor day on November 17th.

Operator
Ladies and gentlemen that concludes today's conference call. We thank you for attending. You may now disconnect your telephone lines.