S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

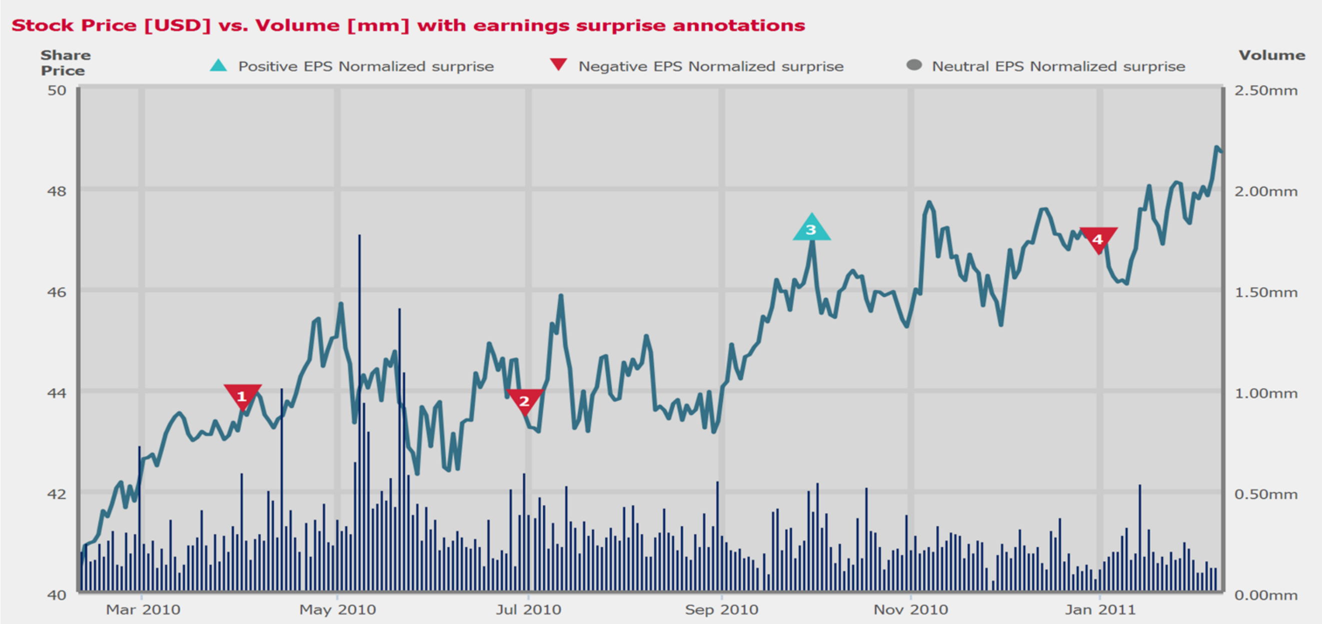
FQ1 2011 Earnings Call Transcripts

Tuesday, May 03, 2011 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.50	0.53	6.00	0.97	3.57	3.95
Revenue (mm)	769.26	749.90	(2.52 %)	828.73	3235.35	3303.49

Currency: USD
Consensus as of May-03-2011 6:00 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.77	0.66	(14.29 %)
FQ2 2010	0.20	0.04	(80.00 %)
FQ3 2010	0.93	0.98	5.38 %
FQ4 2010	1.05	0.95	(9.52 %)

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Call Participants

EXECUTIVES

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

Frederick Eppinger

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Oksana Lukasheva
Vice President, Investor Relations

ANALYSTS

Cliff Gallant
KBW

Larry Greenberg
Langen McAlenney

Melissa Schultz
Stifel Nicolaus

Presentation

Operator

Good morning and welcome to The Hanover Insurance Group First Quarter Earnings Conference Call and webcast. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note this event is being recorded.

I now would like to turn the conference over to Oksana Lukasheva, AVP Investor Relations. Please go ahead.

Oksana Lukasheva
Vice President, Investor Relations

Thank you, Keith (ph). Good morning and thank you for joining us for our first quarter conference call. Participating in today's call are Fred Eppinger, our President and Chief Executive Officer; Marita Zuraitis, President of Property and Casualty Companies; and David Greenfield, our Executive Vice President and CFO.

Before I turn the call over to Fred for a discussion of our results, let me note that our earnings press release, statistical 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 facts, include forward-looking statements. 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 reliance on forward-looking statements and in this respect refer you to the forward-looking statement section in our press release, slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures such as total segment income, after-tax earnings per share, segment results excluding the impact of catastrophes and development, ex-cat loss ratios and accident year loss ratios among others.

A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found on the press release or the statistical supplement, which are posted on our website as I mentioned earlier.

With those comments, I will return the call over to Fred.

Frederick Eppinger

Thank you, Oksana and good morning, everyone, and thank you for joining us. Overall, we are pleased with our first quarter performance. Weather aside, trends in our business continue to develop favorably and are generally in line with the outlook we shared with you earlier this year.

This quarter was particularly challenging for our industry due to an elevated level of catastrophe and non-catastrophic weather related losses. While we incurred cat losses of $50 million pre-tax or $0.70 after tax per share, which was above our expectations, we otherwise generated solid earnings in the quarter.

Net income per share for the quarter was $0.64 and operating EPS was $0.53. Our book value per share increased 1% during the quarter and 7% over the last 12 months. The first quarter is usually associated with higher net related losses for us and we plan for it accordingly. However, this quarter we saw the record amount of snow falls in Northeast and parts of the Midwest in Mid-Atlantic regions which produced an unusually high number of claims due to water damage, ice dams and roof collapses.

Our combined ratio of 100.7 this quarter reflects 6.5 points of catastrophe losses, as well as a more significant level of winter losses that do not meet our cat definition. We estimated to be approximately 2.5 points in excess of what we usually see during the first quarter. Reflecting on the progress we've made in diversifying our business, we believe our more balanced business mix allowed us to produce a 100 combined ratio of breakeven underwriting result for the quarter.

Considering the magnitude of whether losses in the Northeast this quarter, this would have been very improbable outcome with our geographic mix only a couple of years ago. Adjusting for the impact of excess weather, we are seeing favorable trends in our businesses and building momentum for improved performance.

Our accident year, combined ratio excluding cat losses improved by more than 2 points in the current quarter as we continued to work on the strategic levers that I laid out for you in our last earnings call when I shared our 2011 outlook.

First we saw improvement in our expense ratio, which reflected in an increased impact of the expense leverage in our Commercial Line results. Second, we maintained strong growth momentum in our specialty businesses and we've leveraged these investments we have made in those areas. Third, we continued to improve our geographic and business mix, which has and should continue to drive improved and more stable results in the future. And fourth, we continued to get improved pricing in personal lines while continue to grow outside of our four concentration states.So, I'll briefly review each of these areas. Over the last six quarters, our expense ratio in Commercial Lines has been higher than our long-term target as a result of an acceleration of the investments to improve our product portfolio and expand our footprint. Our expense ratio peaked in the beginning in 2010, when we invested heavily in the three acquisitions in our renewal rights arrangement, our Western expansion effort, and the development of additional specially capabilities.

We put people and infrastructure in place ahead of the premium in order to ensure the acquisition retention of attractive business and to provide the highest quality service to our partners. In line with our expectations we are now earning in the net written premium growth we achieved in 2010 and as a result of our expense ratio has declined to the past four consecutive quarters. From 43.5 in the first quarter of 2010 to 39.5 in the first quarter this year.We believe, we will continue to reduce our expense ratio in Commercial Lines going forward. One of the principle objectives in investing in these capabilities is to drive fundamental margin improvement in our overall book of business through a mix shift towards the more distinctive product offering.

Growth in our Specialty business is a critical part of that shift. Accordingly, our 9% growth in Commercial Lines this quarter predominately came from our Specialty Lines in niche offerings. Many of our Specialty businesses are now approaching the scale where they will be making a significant contribution to our overall company performance.In addition, as we deliver more Specialty business directly to our agent partners, we are strengthening our position with them that will lead to more opportunities in the future. Our geographic expansion has also contributed to our efforts to improve our business mix as we ended the first quarter with approximately 225 million of direct premium in the new Western region. This growth has come from a limited number of high quality new partner agents. The establishment of a national network of partner agents will give us a very distractive platform for future growth.The strong shelf pace we now have with partner agents combined with a more distinctive product offering we'll allow us to profitably grow and achieve better pricing. This quarter we saw average pricing increases in our core business of approximately 2%. Increases were even higher in many of our Specialty businesses.

We have always remained disciplined and resourceful in growing without compromising profitable and we've remained optimistically we will continue to do so given a slightly more receptive environment, including higher renewable retention and more rational competition on new business.

I'm also pleased with the improvement in our Personal Line business mix. We continue to grow the percentage of our business that is in full accounts, which now business almost a full two-thirds of our total personal lines in our book continue to shift towards the more diversified geographic profile.In states targeted for growth, we grew by 5% during the quarter as compared to a year ago. At the same time, we successfully managed our core states with the focus on profitability. We achieved effective price increases of 6% personal lines in the quarter, while we improved retention.

Just adjusting for the unusually high non-cat weather we experienced this quarter, our Personal accident year loss trends notably improved. And we believe mix improvement coupled with consistent and disciplined rate increase should higher earnings in personal lines in subsequent quarters.

Overall, I’m pleased with the improved underlying profitability of our business and I’m happy with our earnings prospects.Marita and I are just returning from our annual presents cover then where we met with our 125 of our best partner agents. As a group, our agent partners are energized by the strides we made to be to continue to deliver on our promise to be a more distractive partner for winning in depend agents. They’re excited about our investments delivering broader and more differentiate products, establishing a national network of skilled professionals, and providing greater franchise value by limiting appointments. This momentum we have with our partners should continue to support profitable growth.I will now turn the call over to Marita.Marita Zuraitis</TAG>

Thanks, Fred. Good morning, everyone, and I’m glad you could join us today. As Fred mentioned, we are seeing continued strong momentum in our top line as well as our core underwriting results. Our district agencies strategy allows us to continue to improve on our already high quality mix, while also achieving rate in both Commercial and Personal Lines.

Additionally, we’re seeing the benefit of our 2010 growth as we earned in the premiums and reduce our expense ratio. We believe that our ongoing agency relationships are strong position in the marketplace and our broad product set positions us well for continued improve performance and makes us less vulnerable to the competitiveness of the current market environment. Additionally, our agency strategy will allow us to take better advantage of new opportunities in the marketplace when it begins to turn. Starting on slide seven.Our first quarter combined ratio was 100.7% all-in and 94.2% excluding catastrophes. Our ex-CAT ex-development combined ratio was 97.9% in the quarter, representing a significant improvement from the 100.1% in the first quarter of 2010 and the 98.8% in the fourth quarter of 2010. At the same time, we increased our net written premiums by 3% in the quarter, driven by 9% growth in Commercial Lines, primarily in our Specialty businesses.

I’ll review our businesses starting with Commercial Lines on slide eight. Pre-tax segment income in the first quarter of 2011 was impacted by lower favorable prior year development and higher catastrophe and non-catastrophe weather losses, which we partially offset by a lower expense ratio due to a higher net earned premium base.

The majority of our catastrophe related claims this quarter came from a four day winter storm at the end of January beginning of February, which brought record snowfalls and subzero temperatures to most of our eastern states. Most of the claims were associated with roof damage from snow accumulation often resulting in ice dams or collapses, and accordingly, the majority of our catastrophe losses were recorded in our CMP line.Favorable development of prior year loss and yearly reserves was 14 million or 4 points in the first quarter of 2011 compared to favorable development of 22 million or seven points in the first quarter of 2010. Included in the first quarter development last year was approximately 8 million or 3 points of favorable development due to a one-time benefit in LAE reserves.

Commercial Lines segment income excluding catastrophes in prior year favorable development was 32 million in the current quarters compared to 20 million in the prior year quarter despite higher non-GAAP weather related losses which resulted in an ex-cat accident year loss rate ratio of 60.9% consistent with the 60.4% in the first quarter of 2010.As Fred mentioned, our expense ratio in Commercial Lines decreased in the fourth consecutive quarter as we continue to see the value of the investments we’ve made and the benefits of the renewable rights transactions. The expense ratio also benefited from the timing of certain expenses which should normalize as the year progresses and does not change our full-year expense expectations.

As we continue to earn in growth from 2010, and our newer businesses continue to gain scale, we should see this translate into further improvement in our expense ratio going forward. With the focus on our strategy and continued improvement in our portfolio mix, we have been able to increase the earnings power of our organization, despite difficult current market conditions. Our ability to consistently improve our underlying margins in combination with strong growth provides the best supporting evidence that what we we're doing is working.I'm now on slide nine. In line with our expectations, our core commercial growth moderated in the first quarter as we finalized the OneBeacon renewal rights transaction. Approximately 8 million or 2 points of our overall commercial lines growth is due to the remaining renewals eligible from the OneBeacon transaction.

We are seeing some growth in our small commercial business, virtually all the remaining growth is coming from our Specialty lines. Our Specialty business is a key component in the value proposition we offer of our agents, demonstrating our commitment the product innovation in franchise value. These businesses distributed through a limited number of partner agents is becoming a robust source of earnings growth.

We continue to write mature programs through our AIX platform, which contributed 3 points to the overall Commercial Lines growth in the quarter. Additionally, we saw high quality growth from our Hanover professionals offering, as well as newer specialties like miscellaneous professional liability and healthcare. As these businesses grow we will begin to earn in our investments.

We continued to be satisfied with the quality and the pace of the growth in our Specialty businesses overall as it is associated with solid agent partnerships, controlled books of business, and strong underwriting expertise.Our core businesses also continued to perform well in the quarter, our retention improved substantially while we remain selective in our new business writings. A growing portion of our new business premium came from consolidated and strong underwriting expertise.

Our core businesses also continued to perform well in the quarter, our retention improved substantially, while we remained selective in our new business underwritings. A growing portion of our new business premium came from consolidation activities primarily with our partner agents. Our OneBeacon and western expansion initiatives which drive our earned premium growth continued to perform well and even ahead of our expectations in most operating metrics, including loss trends.

Before I move to Personal Lines, I'd like to share a couple of observations on the Commercial Lines pricing environment. Given our mix and agency position, we continue to see price increases up 2% in our core Commercial Lines and even more in our Specialties. And the market seems to be slowly moving to the positive, especially in the workers comp line. We believe our ability to deliver differentiated product capabilities continues to resonate with our partners and will help us generate an increasing flow of quality Commercial Lines business going forward.

Now turning to Personal Lines on slide 10, pre-tax segment income, excluding catastrophes was $52 million this quarter compared to $50 million in the first quarter of last year. This improvement was driven by better underlying loss ratios in both our Auto and Homeowners Lines.

Our Personal Lines, actually year loss ratio excluding catastrophes improved by 1 point compared to the first quarter of last year. We believe there is an additional 3 points improvement that was masked by higher non-cat weather losses. The lower underlying loss ratio was a result of continued rate increases and actions to improve our mix of business.

On our auto book, we experienced favorable liability trends which were partially offset by higher weather related physical damage losses. In our Homeowners Line, we attribute the underlying loss trend improvement to our rate actions and we believe there will be more room for price increases in many of our geographies going forward considering persistent active weather.

Other underwriting expenses were lower by 0.8 points during the first quarter of 2011, compared to the first quarter of 2010. This was mostly due to timing and the recognition of certain expenses. We expect our Personal Lines expense ratio to remain relatively in line with the 2010 ratio for the subsequent quarters.

Overall, we are on track to achieve a return targets in Personal Lines through our rate and of course and business mix improvement strategies, which I'll discuss using slide 11.

Our Personal Lines net written premium declined by 2.3% quarter-over-quarter with 2 points of that decline coming from the Louisiana and Florida, as we lessen our exposures in Louisiana and aggressively manage profitability in Florida. Putting aside the impact of these planned actions Personal Lines net written premium in the quarter was roughly flat.

As we have said before, given our significant market position in our four core states, we managed these states with a focus on margin not growth. In our growth states, we continued to gain positive momentum with premiums increasing about 5% in the quarter. We are effectively executing our account rounding strategy while growing, and our underwriting results in these states support the effectiveness of the approach.

Additionally, consistent with our account strategy, our overall retention improved on a year-over-year basis. Excluding our Louisiana run-off, retention actually improved by approximately 1%, despite a slight rate increases in our book of business with 5.3% in auto and 4.6% in home.

With the run-off of our Louisiana book and profitability actions in Florida nearly complete, improving trends and retention coupled with a favorable pricing environment and momentum in our growth states, we are confident that are Personal Lines growth should begin to stabilize.

In summary, this quarter continued to demonstrate the effectiveness of our strategy. In Commercial Lines, we are seeing positive pricing trends and have never been happier with the quality of our book. Additionally the benefit of our recent growth is demonstrated through our improved expense ratio. And with that, I'll turn the call over to David.

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

Thank you, Marita. Good morning, everyone. I'm pleased to be here with you today, this being my first of many earnings calls. Fred and Marita have covered a great amount of information about the quarter and our prospects. I would just like to add a few additional comments about our overall results and the strength of our balance sheet.

We are pleased with our results for the quarter. Net income for the quarter was $29 million or $0.64 per diluted share compared with $42 million or $0.87 per diluted share for the first quarter of 2011.

Segment income after tax, which excludes the impact of realized gains and losses on investments and some other non-operating items was $24 million or $0.53 per diluted share compared with $32 million or $0.66 per diluted share for the first quarter of 2010.

As Fred and Marita both noted, our solid underlying performance this quarter was overshadowed by the high level of cat and non-cat weather related losses. On an accident year basis, excluding cat losses, the combined ratio improved by more than 2 points to 97.9% this quarter compared to 100.1% in the first quarter of 2010.

Our segment income included $29 million or 3.7 points of favorable prior year development compared to $37 million or 5.6 points in the first quarter of 2010. In line with our expectations, we continue to see lower favorable development than prior periods as we take favorable development from prior years into consideration when making current accident year selections.

Included in our operating results this quarter, we're also approximately $3 million of expenses associated with activities related to our offer to acquire Chaucer Holding PLC. These expenses were recorded in our other P&C segment, which most reflects our holding company income and expenses.

Turning to slide 14, I'd like to touch briefly on our investment portfolio and yields. As of March 31, our total cash and invested assets reached $5.2 billion. The composition of our portfolio remains largely unchanged from yearend. We continue to maintain a well-diversified portfolio with fixed maturities duration of 4.5 years and weighted average credit quality of A plus. Cash and fixed maturities represent 96% of our total cash and invested assets.

Net investment income for the quarter was $60 million slightly down from $61 million in the prior year quarter due to lower reinvestment yields. Fixed income new money yields were 3.75% in the first quarter compared to 4.19% in the first quarter of last year.

Our pre-tax earned yields on our fixed maturity portfolio was 5.28% for the quarter, down 20 basis points from a year ago, as lower new money rates impacted our portfolio yields. To mitigate declining yields, our current strategy for our fixed maturity portfolio is to continue to emphasize corporate debt and other credit spread sector, while maintaining a high quality well laddered portfolio.

Only about 10% of our portfolio is projected the mature in each of the next two years. So, all things being equal, it should take a relatively long time for our installed book yield to decrease materially.

First quarter net income also benefited from net realized investment gains of $3.3 million. Pre-tax net unrealized investment gains in our portfolio increased by $2 million during the first quarter. Our portfolio will be subjected to market fluctuations driven by changes in interest rates and spreads. However, we are confident we have a balanced and well laddered asset mix which gives us flexibility if unexpected cash needs arise yet provides a stable stream of income in the current challenging yield environment.

Let’s turn to slide 18 for a discussion of our balance sheet and capital. Book value per share increased by about 1% this quarter and 7% over the last 12 months bolstered by segment income and an increase in net unrealized investment gains.

At March 31, 2010, book value per share included a benefit of a $1.98 per share related to a release of deferred tax valuation allowance as a result of the implementation of certain tax planning strategies last year. These are essentially permanent benefits that are currently recorded and accumulated other comprehensive income on the balance sheet. And will gradually be reflected as a tax benefit in non-segment over the course of future periods.

In the first quarter of this year, we realized $2 million or $0.04 per share of these benefits, which flowed into net income from AOCI, as a result of sales from our investment portfolio.

We continued to remain strongly capitalized for our business profile as evidenced by recent rating agency affirmations following the Chaucer announcement. Our total capital at March 31, 2011, was over $3 billion including $561 million of debt.

In February, we repurchased and retired $48 million of par value of our junior subordinated debentures with an 8.2% coupon for $50.5 million, allowing us to reduce our overall debt costs, as well as freeing capacity with goal to optimizing our capital structure.

As we mentioned on our investment - investor call on Chaucer, we are planning to raise $250 million of senior unsecured debt to supplemental funding of acquisition. All coverage and capital adequacy ratios are expected to be comfortably within the rating agency requirements for our current ratings.

Holding company cash and investment securities are approximately $479 million, including a dividend of $99 million paid from the insurance subsidiaries to the holding company in April. About $235 million of this liquidity will be used to fund the Chaucer acquisition along with the $250 million of senior unsecured debt previously mentioned.

We are making good progress on the Chaucer acquisition. The Chaucer shareholders meeting and vote is scheduled for June 3, and we still anticipate a closing early in the third quarter. Following the close, we expect our holding company cash and investment securities to be in excess of $200 million.

Before we open it for questions, I wanted to provide some comments on April catastrophe activity. Between April 14 and 28, hail and strong winds swept through several states with devastating tornadoes affecting the Southern and Southeastern United States, causing massive destruction and unfortunate loss of life.

With over 800 reported tornadoes last month could end up being the most active April on record for tornadoes and has already been compared to the number and severity of tornadoes experience in 1974, the worst tornado season on record.

Based on April whether activity, it’s clear that our cat losses will be elevated in second quarter compared to our overall expectations. However, it is too early to put reliable estimates on these April events as they relate to our second quarter or full-year results.
Now, I would like to open the line for questions.

Question and Answer

Operator

Thank you. We'll now begin the question-and-answer session. (Operator Instructions) Yes, we do have a question from Melissa Schultz (ph) from Stifel Nicolaus.

Melissa Schultz
Stifel Nicolaus

Good morning everybody.

Frederick Eppinger

Good morning.

Melissa Schultz
Stifel Nicolaus

Hi, I have a quick question regarding. Your agent relationships, I guess if Chaucer does have their own agent network I guess, how you're going to work with that and is your agents - a number of agency work with is they are going to increase significantly.

Frederick Eppinger

No, I don't think so, again we - our focus has been on roughly to 1,000 most significant agents in U.S. and I think that's going to continue in the U.S., those folks generates obviously a tremendous amount of business and also access, you know, the vast majority of them access the wage (ph) in one way or the other today. And so my view is that we won't see a significant increase. Chaucer does have some cover all this in U.S., there is a quite a bit overlap of the ones we access in U.S. and who we access and there is few new ones obviously. But I wouldn't see that it would be material at all.

Melissa Schultz
Stifel Nicolaus

Can you remind me what the total numbers that you have right now in the U.S. kind of ballpark?

Frederick Eppinger

Most of efforts are around the top, we have a large - because of our personal lines business and some of mature core stage but the vast majority our business is with about a 1,000 agents.

Melissa Schultz
Stifel Nicolaus

Okay.

Frederick Eppinger

And so that's really the bulk of who we do business with, 1,000 would represent well over 80% of our business.

Melissa Schultz
Stifel Nicolaus

Okay.

Frederick Eppinger

So, you know, and they are typically the most sophisticated agents and they vary in size. But they tend to be as we say winning agents that are consolidating their marketplace, investing in their business and broadening their capability. So, they are very active guys. We have spent very, very proactive at selecting and planning with these guys has been our whole strategy for the last few years and we have now got very good shelf position with these folks. Now, if I can thrash by the way from 2004, our business, we would say about 50% of our agents had that kind of concentration versus now we have 70% with those kind of agent rate. So, we move materially deeper with the best agent in the country.

Melissa Schultz
Stifel Nicolaus

Okay, and then the growth in the western states, was that - I'm sorry, if I missed it, was that from specialty lines or was it from the OneBeacon deal where did that come from -

Frederick Eppinger

Yeah, so we opened up in the West Coast essentially, except for California, which we had small commercial, but everywhere else out west it was essentially specialty and niche business -

Melissa Schultz
Stifel Nicolaus

Right.

Frederick Eppinger

And the One Beacon business.

Melissa Schultz
Stifel Nicolaus

Okay.

Frederick Eppinger

And again, so what you - what we would get is about two thirds of that number, maybe a tad higher would be OneBeacon renewal rights and the rest would be growth. Now, the agents, almost all of the agents would have had some OneBeacon business. So, what you have is business from those agents comes in two plays, the OneBeacon stops AM, it give us additional business and the specialty otherwise, just like we planned. That will expand a tad as we grow our small commercial which we are launching right now in the other states. So, we our complementing that capability now with small commercial and the remaining states between now, say in the next three months - three, four months. And so our product portfolio will be similar to what it is everywhere else as far as commercial lines for the second half of this year.

Melissa Schultz
Stifel Nicolaus

Okay, thank you so much.

Frederick Eppinger

Thank you.

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

Thank you.

Operator

Thank you. And the next question comes from Cliff Gallant with KBW.

Cliff Gallant
KBW

Good morning.

Frederick Eppinger

Good morning, Cliff.

Cliff Gallant
KBW

David, I was wondering if you can make comment on the Chaucer's investment portfolio, just how is it positioned versus your own. Also in terms of your capital ratios what will the - preempts to statutory surplus, mostly how that works with the - in this case what would is that look like pro forma, that those are two questions.

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

Sure. I don't have the premium stat surplus number in front of me, but someone may be able to get that before I'm finished. In terms of the Chaucer investment portfolio, if you recall from the materials we provided about two weeks ago. Roughly half of their portfolio is invested in cash and very short-term liquid securities. The remaining portfolio is in particularly high quality, highly liquid sort of assets and overall the portfolio is extremely conservative, much like ours, other than it's got much shorter durations then we have, and I think that the commentary that I provided a couple of weeks ago, essentially is, we'll look at on a combined basis, how we can manage the portfolio more effectively across those businesses. But by enlarge there's really no issues in their portfolio whatsoever from the standpoint of liquid assets or concerns about the investment strategy that they've undertaken.

In terms of the premiums, the stat surplus, Cliff, I don't have those numbers in front of me, but we can do some calculations and get that to you, but it's important to recognize, they obviously operate in a different business environment than the U.S. market and so their capital and statutory surplus to use that phrase should be looked a little bit differently from those standpoint of a U.S. business and we'll be able to - we can talk more about that, I think as the year wears on, but I'm - overall I think we're going to be in a very strong capital position to run the combined business going forward, it will have many levers in which we can utilize our capital more efficiently across both businesses.

Frederick Eppinger

And I think as we said in the call, we specifically planned this capital, this debt raise allows us to have excess, additional excess capital at the holding company to capitalize the potential turn. So, we didn't - this is we're not stretched by any sense of imagination we have access to capitalize on the additional growth, as it comes through.

Cliff Gallant
KBW

Okay. I had one follow-up, how about in terms of your reinsurance purchases, could you remind when your renewals are up and how you'll approach that? There is some talking the market that pricing might be up.

Frederick Eppinger

Yeah.

Cliff Gallant
KBW

And also when you look at that company portfolio with Chaucer will you change how they buy reinsurance, will you buy it as a group, what will be the strategy.

Frederick Eppinger

I think, as we said most of our stuff is the cat is actually January first, and additionally we locked in, last year we purchased additional on top in the summer which we did already. We locked in early, we've been trying to anticipate some market changes and we wanted to get that done early and we did get it done. So the vast majority of the cat stuff is done for us. There are some specialty lines and causality treaties come in July, but pretty much all the cat stuff comes. The individual risk is I think, Marita what June?

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

7/1.

Frederick Eppinger

7/1.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Yes.

Frederick Eppinger

And so I think as we, I think we might have mentioned actually in the Chaucer call. We believe that the structure of that for us will likely remain the same as it is today as we go into that, but that what's the real, what's remaining for July 1. I think as far as combined, I think that it's too early to talk about that right yet. Obviously, we're the middle of implementation of planning and consolidation planning right now and we will kind of look at see what the most appropriate approach is for combined entity. They both have very good programs. We also as we mentioned in the call, we looked at concentration risk, we have no transitional issue this year that we're worried about given the analysis that we've done and we looked at. So that is something we are going to look at during implementation planning, but I'm not at all concerned about where we are.

Cliff Gallant
KBW

If I can get one more. In the fourth quarter call, you talked about 2011 guidance and $3.70 to $4, is there any update to that number, particularly in light of the cat loss we've had?

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

Yeah, Cliff, if you recall we gave some updates or we updated that guidance about two weeks ago when we concluded the Chaucer call. My commentary that I just mentioned about April is - we are looking at the guidance now for the rest of the year. Obviously, there was a lot of activity in April that continued well into the end of the month and there still seems to be a bit of elevated activity around those storms. So, it's really difficult at the moment to come up with reliable loss estimates so early in the quarter and so early in the process of looking at the storms. So I was a little bit concerned about giving you a too soft of a number today, but I would say is, of the guidance we have out there, it's likely we would be at the lower end of that range at this point, but I'm just not prepared to give you a definitive number and won't have to see other quarter develop over the next several weeks and then we can talk about maybe updating that.

Cliff Gallant
KBW

All right. That's fine. Thank you very much.

Frederick Eppinger

Thanks.

Operator

Thank you. Our next question comes from Larry Greenberg from Langen McAlenney.

Larry Greenberg
Langen McAlenney

Good morning.

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

Hey Larry.

Frederick Eppinger

Hey Larry.

Larry Greenberg
Langen McAlenney

How you're doing? Couple of questions, Marita can you give us a little bit more color on maybe the when the cross-over point for personal lines premiums to stabilize and perhaps grow might be? And then also you made a comment about loss trends and OneBeacon and the Western states coming in better than what you had kind of expected. And I'm just wondering if you might be able to give us a little bit more color on that as well.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Sure. Absolutely. I think in the script we were pretty clear about personal lines and the fact that the work that we've done in the Louisiana and Florida is almost behind us and that we will begin - without that we were relatively flat. So with the growth that we are seeing in the growth states, obviously the growth states are much smaller than our big four. Our big four as we've said before, we manage for margin not for growth, but we're seeing nice growth in those growth states in the quarter about 5%. So with the lot of our defensive action behind us we'll start to see some of those growth states begin to earn in. But they are much smaller than the big states. So it's going to take while for that to come through in the numbers. But as we said without Florida and Louisiana we were relatively flat in the quarter. On your western states…

Larry Greenberg
Langen McAlenney

So it would be fair to assume that with Florida and Louisiana almost done, second half of the year it would be reasonable to think kind of breakeven or better, is that fair?

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Yes, I think that's fair.

Larry Greenberg
Langen McAlenney

Okay. Thanks.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Yeah. And on the Western state question one of the benefits of the renewals rates transaction and we've talked about this before is you only take what you want to take. So the intensity of the underwriting of the individual of the accounts, the handpicking of the agents, the ability to start from scratch certainly gives you more predictability if you will in the loss trends and that's clearly what we're seeing in the west. We handpick the accounts that we wanted to write. We very thoughtfully as Fred said only enter small commercial in California and now we're expanding beyond California. So the ability to start with the limited number of agents, to pick the agents that have better profitability potential and to pick to business clearly gives a benefit from a loss trend perspective and that's what we're seeing in the results. We're pleased with what we are doing in the Western. As Fred said the majority of the business is specialty business, it's niche business, it's where we have the underwriter with the little expertise aligned with the producer with the little more expertise. And I think that it's the best example of our strategy plan through and we're seeing it in loss trends.

Frederick Eppinger

Yeah Larry, let me just give you a little color on the first line question just so, obviously Louisiana in particular has another quarter to - there's going to be some more. So I think the comparison - next quarter is going to somewhere to the comparison in this quarter because of the work. But I see is the rate taking, like in places like Massachusetts and Michigan, where our retention is going up and where I see rate, other people taking rate. We actually feel pretty good about the tail end of this year. I mean we're looking at our competitive position with our agents and we're seeing good retention and we're seeing people take rate and we're doing well. So kind of the ironic thing or the opposite side of some of the storms is that I believe very strongly that this is really hurting regional companies. And what we are seeing is our ability to hold what we wanted and grow. So, I feel pretty darn grow it about the tail end of this year, but I just want to - next quarter I just think that the pips up in Florida is a little bit less to go, the Louisiana stuff there some stuff to go and I do think you're going to see it come more at the tail end, which is what Marita said, I just want to be clear because it's - I think it's immediate.

Larry Greenberg
Langen McAlenney

Great. And then just going back to the loss trends on the OneBeacon stuff, I mean clearly you renewed a lot more, I don't know your exact expectations where, but you renewed.

Frederick Eppinger

Right.

Larry Greenberg
Langen McAlenney

A lot more of that business then kind of the base line 50% trigger for an additional payment at the beginning. So is it fair to say that the underlying profitability that you saw in that business was just that much better than.

Frederick Eppinger

Yeah, so if you recall, it's a little bit of the color on that. There was $125 million of the available business to us that we choose not to put into the renewal rights deal. So - but a little different about that deal is we looked at what they had and didn't take it all at the beginning. So there was about over 1,000 agents and over $100 million of business that we did not select. So in a normal renewal rights, if you took it all rights, if I had added that, my guess is the retention on that $100 million would have been very different. So at the beginning we did that.

The second thing we did is out of the gates, we scored every single account over 100,000 A, B, C and D. Okay? Which, and for some of those we were very proactive about saying find another home early, right. So the stuff that actually came to us if you will, was very much, you can describe it is almost Atlantic mutual book that had been with OneBeacon for a long time. I mean if you look at the number of agents there was 300, really 150 with significant business that business had been with those agents for a very long time. So with a little bit of an odd steal like, now I would tell you because we hired the people they want and we gave them credits on their commission and fronted day one. It encouraged all these agents to just try to figure out how to get it all to us, right. So it's very, now it cost a little bit on the expense side to do that, but from the beginning these guys were all trying to figure out how to get us the business. So it was a little bit different. I've been involved in the number of these renewal rights transactions and this one was a little different because it was a smaller group of agents, it was very much them working with us to try to get it to us and it was business that this team had managed for a long time. Probably 15 to 20% of the business that was not like that, but it was a huge amount of this business that was again with these guys plus 5 years, I mean it was interesting, now remember also part of that about half of that business is what we call segmented in niche.

So it also was in these relatively well defined programs where these people wanted to move the program to us, the (inaudible) program, I mean there was, and so again, they had some danger to it that made it good. Now, we kept saying we got the retrenchable we also got the rate we wanted, I mean it was interesting, right. We haven't had to do anything different on that book than we did on our book with rates. So, it's been successful. Now, again, I would argue that we took a little bit of expense risk with it by hiring the people upfront and fronting the business. But it's all worked out economically, really well for us so far, yes.

Larry Greenberg
Langen McAlenney

Great, thanks. And then, just finally, I think Fred, you and Marita, both referenced kind of an improving trend in commercial line environment. How do you see this, kind of evolving over the next 12 months?

Frederick Eppinger

Yeah, I mean, I don't think there is any silver bullet here. I don't think anybody is saying that it's going to happen quickly, but there is quick obviously movement. What you're seeing is almost everybody in the industry is seeing the same thing, small commercial you get rate retentions are going up, right. What you're seeing in lines like workers comp, people are reacting to the bad performance and rates are going up. Clearly, there is more that needs to be done. It's still very difficult in some of the - as you get up inside, it's still very difficult in some of the casualty lines and property lines it needs some more room. But again, I would say that the sense we have is that we're - maybe a little bit better than bouncing along the bottom. We're actually getting better, right? Because things are starting to move in the right direction. I still think, again, it's difficult; now, the one benefit we have obviously is our average policy size is smaller, right? So our mix, we've been seeing positive for a while. But I would tell you the dialogue is a lot more productive than it is. And I've said this a couple of times in calls, one of the things that's different above this turn than any of the turn we've ever had. We've never had four years of shrinkage in a row before. And so, the agent economics are so strained because of that that they are very much incented with us as carriers, to get their retention up and get some rate into the book. And so, what we're seeing is a lot more active effort to try to stabilize the economics, of their business and in our business. But again, we still, it's not perfect yet, it's not really "turn" like we talk about. But it feels a lot better and it feels like the dialogue is a lot better.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Yeah, the only thing I'd add to that and I said in my scripted comments is that we enter this point of the market at this point in the cycle with a book that we feel very good about. We have a very high quality book of business that we think has performed quite well. So, I wouldn't - I wouldn't trade this book for any other book out there, it's a good quality book of business. And we feel good about its underlying performance.

Larry Greenberg
Langen McAlenney

Great, thanks for the answers.

Frederick Eppinger

Thanks Larry.

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

Thanks Larry.

Operator

Thank you. And, as there are no more questions at this point, I would like to turn the call back over to management for any closing remarks.

Marita Zuraitis
Executive VP, President of Property & Casualty Companies

Thanks to all of you for your participation today. And we'll look forward to speaking to you next quarter.

Operator
Thank you. That concludes today's teleconference. You may now disconnect your phone lines. Thank you for participating.