S&P Global
Market Intelligence

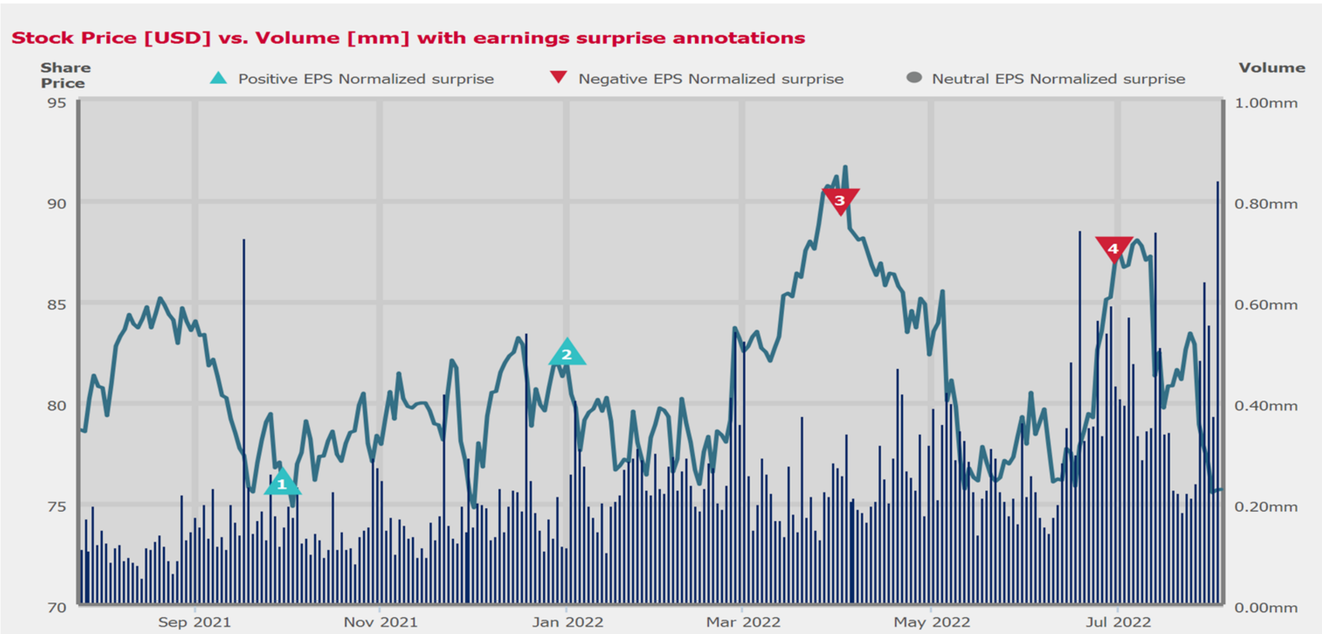
Selective Insurance Group, Inc. NasdaqGS:SIGI FQ2 2022 Earnings Call Transcripts

Thursday, August 04, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.23	1.17	(4.88 %)	1.26	5.42	NA
Revenue (mm)	894.06	864.80	(3.27 %)	909.89	3562.23	NA

Currency: USD
Consensus as of Aug-04-2022 9:51 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.03	1.18	1 14.56 %
FQ4 2021	1.43	1.56	2 9.09 %
FQ1 2022	1.46	0.89	3 (39.04 %)
FQ2 2022	1.23	1.17	4 (4.88 %)

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Call Participants

EXECUTIVES

John Joseph Marchioni
CEO, President & Chairman

Mark Alexander Wilcox
Executive VP & CFO

Rohan Pai
Senior VP of Investor Relations & Treasurer

ANALYSTS

Grace Helen Carter
BofA Securities, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Presentation

Operator

Hello everyone. Welcome to Selective Insurance Group's Second Quarter 2022 Earnings Call. At this time, for opening remarks and introductions, I'd like to turn the call over to Senior Vice President, Investor Relations and Treasurer, Rohan Pai. You may begin.

Rohan Pai
Senior VP of Investor Relations & Treasurer

Good morning, everyone. We are trans-casting this call on our website, selective.com. The replay is available until September 4, 2022. We used 3 measures to discuss our results and business operations. First, is GAAP financial measures reported in our annual quarterly and current reports filed with the SEC and second, we use non-GAAP operating measures, which we believe makes it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income available to common stockholders, excluding the after-tax impact of net realized gains and losses on investments and unrealized gains and losses on equity securities.

Non-GAAP operating return on common equity is non-GAAP operating income divided by average common stockholders' equity. Adjusted book value per common share deferred from book value for common share by the exclusion of total after-tax unrealized gains and losses on investments included in accumulated other comprehensive loss or income and GAAP reconciliations to any referenced non-GAAP financial measures are in our supplemental investor package found on the Investors page of our website.

Third, we make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They are not guarantees of future performance and are subject to risks and uncertainties. We discuss these risks and uncertainties as detailed in our annual, quarterly, and current reports filed with the SEC, and we undertake no obligation to update or revise any forward-looking statements. Now I'll turn the call over to John Marchioni, our Chairman of the Board, President and Chief Executive Officer, who will be followed by Mark Wilcox, EVP and Chief Financial Officer. John?

John Joseph Marchioni
CEO, President & Chairman

Thank you, Rohan. Good morning and thank you for joining us today. We noted strong earnings in the second quarter, continuing our long-term track record of consistently achieving our target operating returns, while also generating excellent top line growth. Our annualized non-GAAP operating ROE was 11.4% in the second quarter, and for the first 6 months, our annualized operating ROE was 12.1%. Based on our updated forecast for the full year, we are on track to hit our 11% ROE target for 2022 and record our ninth consecutive year of double-digit ROEs. Despite slightly elevated non-catastrophe property losses from the impact of higher economic inflation, we produced a 95.5% combined ratio in the second quarter.

Our year-to-date combined ratio was 94.3%, slightly better than our initial full year guidance. Growth in net premiums rating was 12% for the quarter, driven by strong renewal pricing in standard Commercial Lines and excess and surplus lines, solid retention rates in down commercial and personal lines and an increase in exposure. In standard commercial lines, renewal of pure price increases in the second quarter averaged 5.3%, up from 4.8% in the first quarter. Retention of 86% was up a point from the prior year period, suggesting a pricing environment remains constructive. Combined exposure increase of 3.9%, the total premium change in our commercial lines renewal book in the second quarter was a positive 9.4%.

We have long maintained a highly disciplined approach to managing renewal pricing in the context of expected loss trend. We have been extremely transparent about this over the past several years, providing the expected loss trend in our forward combined ratio guidance. With the high interest in this topic, I want to highlight the approach we have consistently taken and how we view trends in the current environment. The first key point is that loss trend is affected by both frequency and severity. We continue to see frequencies running slightly lower than pre-pandemic levels across most lines of business, providing a bit of an offset to severities, which are being impacted by a higher level of economic inflation.

When we gave our initial guidance in January, we set our 2022 combined ratio included a loss trend assumption of 5% across all lines. More specifically, that loss trend assumed a 5.5% trend for casualty lines and a 4% trend of property lines. Underlying net property trend assumption was an expectation that frequencies will continue to run below pre-pandemic levels and partially offset the higher severities, while property frequencies have held up relative to our expectations, severities have come in higher. We see current year severity trends in the property lines running closer to 10% as economic inflation at City Mills launch particularly hard. The impact of this higher trend, which continued from the first through the second quarter is fully reflected in our current year combined ratio guidance that amounts to an approximately 70 basis point increase to our all-lines expected loss ratio.

Through the first 2 quarters, we remain confident that our assumed casualty loss trend is holding up well. It is also worth noting that we have largely remained on our 2020 and 2021 casualty loss picks despite the better-than-expected frequencies in both accident years. This recognizes the potential for elevated severities to emerge in those more recent accident years. Increased pricing is the primary lever available to address higher loss trends. We are pleased with the sequential increase in our commercialized renewal pure pricing in the second quarter, which was up 50 basis points over the first quarter.

Renewal of pure price increases in the line of business most affected by economic inflation was strong with commercial auto up 8% and commercial property up 7.5%. I -- another key lever is adjusting inflation-sensitive exposure basis to generate additional premium increases, which serves as an offset to the inflationary impacts on loss trend. For example, in commercial property, we saw an exposure increase of about 3.8% through the first half of the year. A portion of this increase acts to offset the increase in property severities.

When we combine the exposure change with renewal rate of about 7.5%, they produce a total impact of over 11%, which is approximately in line with the severity trend for this line. We have a proven track record of effectively managing price relative to loss stream through market cycles going back over a decade. The organizational strength we have built continues to serve us well in this more uncertain economic environment. We remain highly confident in our ability to continue to deliver consistently strong underwriting margins moving forward.

Turning to investments, the higher interest rates realized in the first half of the year have had both negative and positive impacts on our investment portfolio. Book value dropped by 14% for the first 6 months of the year due to the impact of realized and unrealized losses on the fixed income portfolio. However, higher rates have also created the opportunity to increase overall book yield, while also moving up in credit quality.

Through the first 2 quarters, we have increased the pre-tax book yield on our fixed income portfolio by 50 basis points with an approximate 3.2x investments to equity ratio, every 100 basis points of higher return on the investment portfolio, translates to approximately 250 basis points of additional ROE. I will close with a few quick business updates.

Overall, I remain extremely pleased with our strong execution despite an environment of economic capital marketing loss trend uncertainty. Our commercial lines geographic expansion plans discussed on recent calls remain well on track. We opened Vermont during the second quarter and are on track to open Alabama and Idaho in the coming months. We expect to maintain a similar pace over the next several years. Geographic expansion is an attractive and relatively low-risk growth opportunity for us as we can leverage our strong underwriting and technical capabilities in business lines that we understand well.

While outsized catastrophe losses during the quarter put out pushing results, we continue to make solid progress in migrating our business toward the mass affluent market. Direct written premium growth in the target mass affluent segment was strong in the quarter at 20%, reflecting our superior coverage and service capabilities. As the year progresses, we expect to continue to obtain additional rate and exposure changes to further offset higher loss severities. Our E&S business remains a strong contributor to our financial results.

The marketplace continues to provide strong pricing and business opportunities. Our AMS business profile is primarily smaller accounts and lower hazard risks with a casualty focus. Our new automation platform for general liability, property, and package business provides us with capacity to continue to grow the business while enhancing operating efficiencies. Our strong market position has us well positioned to navigate this challenging environment and continue to produce the strong and consistent results we have delivered over the past several years. With that, I'll turn the call over to Mark.

Mark Alexander Wilcox
Executive VP & CFO

Thank you, John, and good morning. I will review our consolidated results for the quarter and first half of the year to discuss our segment operating performance and capital position and finish with some comments on our updated guidance for 2022. For the second quarter, we reported net income available to common stockholders a diluted share of $0.61 and non-GAAP operating EPS of $1.17.

Underwriting results and investment performance were both meaningful contributors to our solid results with alternative investment income from an event than we had previously expected. The results translated to an annualized non-GAAP operating ROE of 11.4% for the quarter and 12.1% for the first half of the year. Turning to our consolidated underwriting results, we reported 12% growth than that previous written for the quarter and year-to-date, driven by strong growth in our commercial lines and E&S segments. We reported a consolidated combined ratio of 95.5% for the second quarter.

The combined ratio included $46 million of net catastrophe losses or 5.5 points and $12 million of net favorable prior-year casualty reserve development accounted for 1.4 points. The catastrophe losses related to a series of Midwest storms that were particularly impactful for our postal Lines segment. Outside postal lines, capital activity was lower than expectations. On an underlying basis, or excluding catastrophes and prior-year casualty reserve development, the second quarter combined ratio was 91.4%, down from 93.1% in the first quarter, but up compared with 89% in the year ago period, driven by non-GAAP property losses.

In particular, the year-ago period benefited from pandemic driven frequencies, which favorably impacted non-GAAP property losses. For the second quarter, non-GAAP losses accounted for 16.6 points on the combined ratio, which is about a point higher than expected. The high losses were driven by higher auto physical damage and commercial property severities. This continues to seem we experienced in the first quarter and is factored into our updated full year expectations.

Year-to-date, we reported a 94.3% combined ratio or 92.2% on an underlying basis. The combined ratio includes a non-GAAP property loss ratio of 17.5%, which is running about a point above expectations and is partially offset by lower-than-expected expense rate year. In addition, our year-to-date GAAP loss ratio of 4 percentage points despite better than expected for the first half of the year.

Our updated ex-CAT combined ratio guidance of 90.5% for the year implies an underlying combined ratio of approximately 91.5% for the year. This is consistent with our guidance from last quarter, but it is up from 91% at the start of the year with the increase driven by expectations at non-GAAP property losses will run about 70 basis points higher than we expected probably saw over the year.

Moving to expenses, our expense ratio was 33.5% for the second quarter, slightly down relative to 33.7% in the prior year period. For the first half of the year, the expense ratio of 33.3% was slightly below our full year run rate expectations of 33.5%, primarily due to the timing of labor benefits and other overhead expenses.

Over the longer term, we remain focused on lowering expense ratio through a range of initiatives, including technology and process improvements, while balancing this objective with longer-term investments. Corporate expenses principally comprised of holding company costs and long-term stock compensation, totaled $8 million in the quarter compared with $9 million in the year ago quarter.

Turning to our segments. Standard Commercial Lines net print written increased 12% driven by renewal fuel price increases averaging 5.3%, excellent retention of 86% and exposure growth of approximately 3.9%. New business was in line with the year ago. The Commercial Lines combined ratio was a profitable 93.1% and included 3.3 points of net catastrophe losses and 1.8 points of net favorable prior year casualty reserve development, the favorable prior year casualty reserve development was driven by $10 million from Workers' Compensation for accident year 2019 and prior and $2 million from bonds for accident year 2020.

The Commercial Lines underlying combined ratio was 91.6%. This was 2.3 percentage points higher than the year ago period, with the increase principally coming from 2.2 percentage points of higher non-GAAP company losses. Commercial auto and physical damage severities, which we highlighted last quarter, remaining at elevated levels and non-GAAP commercial property losses were a bit higher than expected this quarter as well.

In our Commercial Lines segment, our premiums written increased 5% relative to the prior year period. Renewal fuel price increases averaged 0.6%, retention was slightly up relative to a year ago at 85%, and the business growth was strong at 23%, reflecting the successful execution of our mass affluent strategy as the growth was within our target market. However, the combined ratio was an unprofitable 116.9% for the quarter, driven by a heavy [indiscernible] quarter with the cash impact in the combined ratio by 28.7 points. The underlying combined ratio of 88.2% was 2.7 points higher than the prior year period, driven by higher personal auto physical damage losses.

In our E&S segment, net purchase written grew 13% relative to a year ago. Renewal fuel price increases averaged 6.9%, retention remained strong, and new business was up 17%. The one ongoing renewal [indiscernible] last year was again not material to the premium growth. The combined ratio for the segment was a solid 95.8% in the quarter and included 2.8 points of net catastrophe losses. The underlying combined ratio of 93% was 2.9 points higher than the prior year period, tier made by 3.9 points of high non-GAAP property losses.

Moving to investments, our portfolio remains well positioned. As of quarter end, 91% of the portfolio was invested in fixed income and short-term investments. with an average prime rating of A+ and an effective duration of 4.1 years and offering a high degree of liquidity. Risk assets, which included a high-yield allocation contained in tax income, public equities, and alternatives represented 10.9% of our investment portfolio, down about a point as we reduced public equities and high-yield exposure in the quarter.

For the quarter, after-tax net investment income of $56.7 million was down relative to $67.4 million in the year ago period. Alternative investments, which were reported on [indiscernible] contributed $7.3 billion of after-tax gains relative to our product expectations for loss in the quarter, significantly outperforming public bathmat but were down $16.3 million compared to the prior year period. Year-to-date, we have generated $22.4 million of after-tax gains from our alternative investments.

Our current best estimate is for approximately $15 million in after-tax income from alternatives for the full year, therefore, implies we expect to get back some of our basic day gains most likely in the third quarter. I would highlight, however, there is an inherent agreement of precision in estimating future returnable other investments, particularly when excavated in over a relatively short time horizon. The after-tax yield on the total portfolio was 3% for the quarter, which translated to 9.1 percentage points of annualized non-GAAP operating or recontribution.

The after-tax yield on the fixed income securities portfolio was 3.1% in the second quarter, up from 2.6% in the first quarter. While generating underwriting income continues to be our focus. We also continue to actively manage the investment portfolio to optimize our risk-adjusted investment yields and what has become an attractive fixed income market. We have put approximately $1.5 billion of new money to work in our fixed income portfolio during the first half of the year. We have moved company credit quality on these purchases, which have averaged an AA minus credit rating. The after-tax in money yield for the quarter was up meaningfully to 3.6%, relative to 2.6% in the first quarter and 1.8% in the comparative quarter.

In addition, approximately 14% of our fixed income portfolio remains invested in toilet securities and these securities are resetting and higher benchmark rates, helping increase book yield and investment income. Since year-end, we have increased the pretax book yield of our fixed income portfolio by about 46 basis points. This includes 27 basis points this quarter in addition to the 19-basis point increase last quarter. We expect to put an additional $700 million of work in new fixed income purchases in the second half of the year from organic cash flows from maturities, coupons, and operating cash flows. While the current investment market is helping prospective investment income, a higher interest rate environment and wider-range spreads have thus negatively impacted the total return on the portfolio. The portfolio's total return was negative 2.98% in the quarter and negative 6.37% for the first half of the year.

Turning to capital, our capital position remains strong with $2.6 billion of capital equity as June 30, 2022. Book value per share declined 7.2% during the second quarter and is down 14.2% for the first half of the year, with our earnings more than offset by an increase in net unrealized losses. Adjusted book as per share increased 1% in the quarter and over the trailing 12 months, it is up 9% or 12% inclusive of dividends. Our financial position remains extremely strong. Our holding company has $510 million of cash and investments exceeded our longer-term target. Our net previous rent to surplus ratio to a capital debt to 1.41x, but is still at the lower end of our target range of 1.35x to 1.55x. Our debt-to-capital ratio of 60.3% is also very conservative.

During the first half of the year, we repurchased 86,100 shares of our common stock at an average price of $75.41 per share for a total of $6.5 million. As of the end of the quarter, we had $9.1 million of remaining capacity under our share repurchase program, which we plan to use as opportunities to claims. I will conclude with an update on our guidance. We currently expect the GAAP combined ratio this year, excluding catastrophe losses of 90.5%, inclusive net total casualty reserve development in the first half of the year.

Our guidance assumes no additional prime accident year casualty reserve development, our catastrophe loss assumption remains full points on the combined ratio. We now project an after-tax net investment income of $215 million, which is up $10 million relative to our prior guidance, reflecting higher income from our core fixed income portfolio. We expect approximately $15 million of after-tax net investment income for alternative investments, which implies losses in the second half of the year, but I would again highlight the difficulty in estimated in this line item and the fact that alternative investment income could come in materially lower or higher than our current expectations.

An overall effective tax rate of approximately 20.5%, which equates an effective tax rate of 19.5% for net investment income and 21% for all other items and with average shares of $61 million on ability basis, which assumes no additional share repurchases we may make under our authorization. Overall, a strong first half of the year in terms of growth and profitability. And with that, I'll ask the operator to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] We have a question on the line. Our first question is from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I want to make sure I understand the wording, the way you're talking about the guidance for the first half of the year. So sorry if I am a little confused here. For the full year, 90.5%, for the first half, your ex-cat was 90.3% -- about 2 points favorable. So at 90.3% or about 92.3% depending on which one you are. Are you comparing to 90.5% for the full year to the 90.3% for the first half or the 92.2% for the first half? So, it is booming in the first half or flat, I'm sure. That is my confusion.

Mark Alexander Wilcox
Executive VP & CFO

Yes. Good question, Mike. So, let me walk you through that to make sure I am answering your correct question correctly. So, our guidance is on an ex-cat basis, and I'll come back to the underlying in just a second. So, for the full year, we are forecasting an ex-cat combined ratio of 90.5%. Year-to-date, we are at 90.3%, so it does imply a slightly higher combined ratio for the second half of the year of 90.7%. Another way to look at it, is on an underlying basis, so this is ex-cat and ex-favorable reserve developments. The year-to-date underlying combined ratio is 92.2%.

And then, what I highlighted in my prepared comments was on an underlying basis, our guidance when you take year-to-date favorable reserve development spread over the full year, it is approximately 1 point. So, the full year expecting an underlying combined ratio of 91.5%, and that would then imply underlying margin improvement in Q3 and Q4, which would average about 90.7% to get to 90.5% for the full year. So, I do not kind of a detailed reconciliation, but hopefully, that squares up the year-to-date results for the full year guidance on ex-cat on the underlying basis.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes, it does, thanks. So again, the 92.2% million gets to about 91.5%. Right...

Mark Alexander Wilcox
Executive VP & CFO

Correct.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay, and so let us talk about that then. So, the improvement in the back half of the year, I guess I want to couple that with John's earlier comments with I guess, is what we saw in the second quarter is that the severity rise to 10% added about $70 to your overall loss ratio. I guess you are assuming that the rate that you have, the pricing that you have now will help to offset that. So that's where this improvement is going to come from in the back half of the year?

Mark Alexander Wilcox
Executive VP & CFO

Yes. I think that's right, Mike. Let me maybe start and then John can add in as well. So, a couple of things to think about. One is, I highlighted our non-GAAP property losses are running about a point above expectations year-to-date. It is actually about 90 basis points. It is a little bit of rounding. We have talked about embedded in our guidance for the full year, about 70 basis points on higher non-GAAP property losses from what we saw in the year. We started the year with an underlying combined ratio of 91% and now we are suggesting 91.5%.

So, we are expecting continued elevated non-GAAP property losses in the back half of the year, although sustaining a little bit as we are getting strong rate increases and healthy exposure, both from a credit perspective and we also now expect perhaps a little bit of expense ratio improvement relative to our guidance at 32.5%, and that sort of squares you back to the 91.5 for the full year.

John Joseph Marchioni
CEO, President & Chairman

Mike, this is John. The only thing I will add to that, I think it is important to put the non-GAAP property losses in the proper context. So, as Mark indicated, it's about -- year-to-date, it's about 90 basis points above expectations. That equates to about $22 million, $18 million of that $22 million is auto physical damage. So, there is a little bit of traditional property, but if you put together a commercial property home and one with E&S property, it is only a couple of million dollars over expected.

The auto physical damage is the one line of business we as an industry do not have an inflation sensitive exposure base, whereas in the property lines, we have that, and that is why we think it was important to kind of point out the combination of rate plus the exposure change in the property lines that we highlighted commercial property in particular because those exposure increases do neutralize the inflationary impact of severity, and that's why we wanted to put that all together.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. No, that's helpful. Carafate. So, I guess, second question then is on your commercial book, and maybe it is just because the dollars are a little bit smaller, but anything to read on this quarter's new business was not down, but flat. Also, the [indiscernible] was kind of down. It was pretty flat this quarter. Anything to read there? And kind of what does that mean going forward, I guess, for the sustainability is a pretty strong commercial lines overall growth. If new business may be flat if that continues. And then if there's any exposure impact on the top line from what might happen to the economy? So, kind of a 2-part question there.

John Joseph Marchioni
CEO, President & Chairman

Yes. Sure. So, new business is always going to be a little bit bumpy quarter-to-quarter. And I say that because our primary focus on new business acquisition is pricing and underwriting discipline. I don't think and I believe this is probably what you have heard from others in the market. I think overall, the market pricing dynamics remain fairly rational, but new business pricing is always a little bit of a different game. And I think you go through periods of time where different markets sometimes dial up their focus on new business, and as a result of that, we might not be comfortable with where pricing levels are, but I will say this flat new business overall in Q2. We had a really strong Q2 last year.

So, I think that would explain part of the differential. We're comfortable with where we're writing our new business levels, but from quarter-to-quarter, you just will see some inherent noise in that number on a year-over-year basis based on our ability to win accounts at pricing levels and from an underwriting quality perspective that we're comfortable with. Now I do think you do want to factor in a little bit of what you mentioned as well, which is that exposure increase that's evident in everybody's renewal book, is also probably impacting favorably the average size of premiums on new business.

So, there's probably a little bit of lift in that new business number, and if you would strip that out, I would say you might actually refer to the new business is being down slightly on an exposure adjusted basis. But a long way of saying, new business quality and pricing is something we monitor very closely. We're very comfortable with what we're bringing on the books and at what pricing level, but that's going to bounce around from quarter-to-quarter depending on our ability to win based on where the market is.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. Last one, if I could then guys, commercial auto, obviously, there are some damage issues and property issues there, too, as well. But I guess, are you seeing anything in the recent trends that might indicate on the non-property side of commercial or liability side of commercial that might indicate that, that line might start to become more of a problem trial like it was a few years back.

Mark Alexander Wilcox
Executive VP & CFO

So I don't -- I wouldn't point to anything specific there. First comment I'll sort of refer back to is commercial auto liability is included in that casualty discussion I had in my prepared comments, and we had embedded a current year loss trend assumption of 5.5% across all casualty lines that includes auto BI. But I also stress the point, and I wanted to make the connection there that the 2020 and 2021 accident years for us, we have largely stayed on those initial loss picks, and obviously, auto liability for us is a big part of our casualty loss picks.

And we've done that because while the frequency benefit is real, and I think those accident years have aged to the point where we feel like that frequency benefit is real. We are staying on those loss picks because any concerns over emerging severity in the current accident year would also ultimately come through in the more recent prior accident years. So, I think that's just reflective of our way of recognizing that whether it's evident or not at this point, we weren't concerned that severities might emerge, and we stand on those loss picks for that reason, essentially, largely ignoring the frequency benefit that has been recognized for that line of business.

Operator

Our next question is from the line of Paul Newsome from Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I was also interested in the Commercial Lines, but I think you mostly covered it. Does BOP have the same sort of property and liability exposures and inflationary impacts as you were talking sort of broadly as well? When you're talking about property and liability, was that just sort of general liability, commercial auto and commercial property?

John Joseph Marchioni
CEO, President & Chairman

So, in my comments is our property and casualty -- you're actually from a loss trend perspective.

Paul Newsome
Piper Sandler & Co., Research Division

That's right. From a loss trend that is suggestive of BOP seeing the kind of -- because there seems to be some differentiation among companies between size of customer, but I am not really sure if you are seeing the same thing on things.

John Joseph Marchioni
CEO, President & Chairman

No. So now we do split out the BOP into the property component and the casualty component, and that is embedded in the breakdown that I gave you. And property represents about 65% or 70% of the -- of that premium allocation. So, it's in there. I will say -- and it was in my answer to the last question relative to what's driving the non-GAAP property. For the most part, our BOP on a property basis has been running a little bit better than expected -- on a year-to-date basis, and there's a combination of this, most likely frequency driven more so in severity driven. But I am not sure if we're getting to your specific question or I will make sure I'm understanding it correctly.

Paul Newsome
Piper Sandler & Co., Research Division

No. It sounds like if there's not a big differentiation in terms of the loss trends and BOP, it is just based on what you just...

Mark Alexander Wilcox
Executive VP & CFO

Yes. The other thing to note, too, is BOP is a bit of a smaller line for us than many of our competitors. And part of that is a lot of our small accounts are in small artisan contractor segments, which are not written on a BOP. Those are written on a property and GL package. So, it is not as big of a line for us as well.

Paul Newsome
Piper Sandler & Co., Research Division

It's somewhat similar -- any differentiation in these loss trends if we're talking about sort of the excess piece of liability or properties at the higher end?

John Joseph Marchioni
CEO, President & Chairman

I would say no, and we do a full reserve analysis, a full reserve review by-line including umbrella, we have not seen any noticeable shift in trends in our umbrella line, which has been a consistently strong performer for us. I would say -- the umbrella that we write, and I think this is probably reflective of most of our standard market peers is generally written on a supported basis, meaning you're writing the underlying GL and/or auto.

And I think you would expect that you are seeing umbrella issues, you would be seeing severity merge unexpectedly high on the auto and/or the GL that underlies it. And we're not seeing that. We, as I said earlier, the loss trend assumptions we have in the current year and the more recent prior accident years are holding up quite well. I think that's the first thing you would see before you saw an umbrella impact that surprised you, but one way of saying no, there's nothing in our umbrella trends that have us concerned at this point.

Operator

Next question is from the line of Meyer Shields from KBW.

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

Great. John, thanks for all of your commentary on the impact of the exposure base growth. I was wondering, given your pricing capabilities, what are the opportunities for actually even making that flow through even better or more responsive to inflation?

John Joseph Marchioni
CEO, President & Chairman

Well, I guess I feel like we do a really good job of that. I think this comes through in the non-GAAP property commentary where the majority of the non-GAAP property noise we are seeing is driven by all fiscal damage because it is the one line, we do not have that exposure inflation-sensitive exposure base, I feel like there are 2 aspects to this, especially on the casualty lines, which is make sure you're getting your exposure base right when you write accounts and then make sure you have got a lot of discipline and timely discipline around wanting those policies that are auditable to make sure you are quickly recognizing any change and charging for any change in exposure, and I think the discipline around that is certainly important.

And then I think on the property side, it is just making sure that you've got discipline around running updated replacement cost estimators, which include the impact of building in materials and wages and you are getting those through your exposure base as quickly as possible. I think those are the big drivers. Unfortunately, on the auto physical damage side, there is just not a lot of numbers available to reflect those increased costs of recurring and replacing vehicles in your exposure base, which means that pricing is your primary tool, and that is what we continue to be focused on for that line.

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

Understood. And I guess that was kind of my question. I know it's certainly not industry practice right now. Is there any way of actually in replacement costs in the pricing for auto coverage?

John Joseph Marchioni
CEO, President & Chairman

I think that would be a very positive change going forward. I think we're all highly dependent on third parties to do that for us. In personal auto, it is done. It is done on an annual basis. So, there's a bit of a lag there, and I would not suggest it is a responsive to actual changes in replacement and repair costs as what you're really seeing in terms of inflation. But you have got it happening on a very lag basis in personal auto, you don't you don't have anything similar fine. You get some model on your list in commercial auto each year.

But again, these are not -- I wouldn't call these inflation sensitive. And I think the providers of those estimates for us would be doing the industry in real service by being a lot more responsive like we are on the property side to the change in the replacement costs. Now again, we are in an unusual circumstance. I think historically, we have never seen this kind of movement in the short of a period of time and the cost of used vehicles and the cost of recurring vehicles, but I think we should all learn from this. And I think that would be a positive change going forward to be more responsive to exposure or inflation-adjusted exposures.

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

That's very helpful. Second question, I guess, and I apologize if I missed this. I wonder if I could get quarterly and year-to-date catastrophe losses by line of business. I know we've gotten that on some previous calls.

John Joseph Marchioni
CEO, President & Chairman

Yes. I will give Mark a second to find those for you.

Mark Alexander Wilcox
Executive VP & CFO

Maybe I can start with outstanding commercial lines and walk you through that and see that hits the market, and we can go into personal lines, but I think that is pretty self-explanatory, but in 10 commercial lines for the quarter in commercial auto, it was $637,000. Commercial property at $19,143,000 and BOP $2,530,000, total loss at $22.3 million or 3.3 points on the combined for caps and AGT for commercial lines...

John Joseph Marchioni
CEO, President & Chairman

So, 15.5 points on the property line.

Mark Alexander Wilcox
Executive VP & CFO

Yes. 15.5 points on the property line.

John Joseph Marchioni
CEO, President & Chairman

Is that good?

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

Yes. I mean I don't think we got it in the first quarter, so I was hoping for you to date numbers, but I can also follow up with that.

Mark Alexander Wilcox
Executive VP & CFO

Yes. I will give you the year-to-date numbers quickly. So, commercial of $936,000 year-to-date. Commercial property, $3,284,000, and BOP of $4,240,000 gets you to the $37.3 million on a year-to-date basis of 2.8 points on the combined. And then in Commercial Lines, there is a little bit in the first quarter, but If you wanted that split, [indiscernible].

Operator

Our next question is from the line of Grace Carter from Bank of America.

Grace Helen Carter
BofA Securities, Research Division

So, I was wondering if we could look at personal lines a little bit. I know you all mentioned expecting maybe some accelerated rate increases in the back half of the year. With the rate being a little bit lower than in 2021 year-to-date, just kind of flat sequentially. I was wondering if there is anything related to the mix change going on in that book that may be hiding some increases year-to-date? Or, I guess, if you think that the 0.6% is actually representative of the rate that you're taking so far.

John Joseph Marchioni
CEO, President & Chairman

Yes. Thank you, Grace. So, that is the actual rate number. I do not want anybody to mislead any of it, or be misled at all. That's the actual right number. I think what you were pointing to, though, is more of a mix change, and there is a substantial mix of business change happening in our portfolio. And historically, without getting too much into the specific differentials, our target market that's generating the growth has performed better than our nontarget markets historically. The book of business transformation has been meaningful.

And I gave you the growth in target market premium in the quarter on a direct basis, and that was 20% versus your selling overall at 5% growth in the quarter. So, you can see a substantial shift in that book that's happening, which will generate, in our view, mix change. Now that said, we need to be responsive to the overall C-level increase from a loss cost perspective, which we think impacts every segment of the market pretty evenly, and that is why we will be increasing the fine-free amounts. It will just take a little bit longer for those to appear in the pure rate that you see reported. But I cannot understate that mix change because we believe it is meaningful.

And then the other point I will highlight is when we got into the pandemic, we opted to just provide premium credits. Our rate level was actually positive in 2020 and flat in 2021 overall as opposed to taking big rate decreases, while rate increases like a number of market participants. So, I, think the starting point is a little bit different, but not to say that we do not want to see rate pick up as we move forward in both the auto and home lines.

Grace Helen Carter
BofA Securities, Research Division

Thank you, and I guess related to the outperformance you mentioned in your target market for that book. The core loss ratio has not really been quite as variable as we have seen from peers over the past few quarters. Just kind of hovering in that give or take, 61% to 62% range. Is that also a function of the mix change, ongoing in the book or is there anything else unique in your book that might have precluded the sizable step-up that we have seen some peers this quarter?

John Joseph Marchioni
CEO, President & Chairman

No. I think that the mix change would be the one thing that would be impacting that. Again, there is some property sensitivity there. We have seen homeowners, in particular, come in a little bit better than expected on a noncash basis, but there's nothing else there that would suggest otherwise.

Operator

[Operator Instructions]. Our next question is from Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just had a question. Severity is up for the industry across a lot of lines, and you mentioned in your comments about the claims frequency still being down versus pre-pandemic levels. And I wonder if you're able to quantify that really at all. And just I would be interested to hear your thoughts as to why you think that has not rebounded kind of with the exception of the Workers' Comp to kind of current levels, given that the reopening has been around for a year plus. Just anything you can share on that?

John Joseph Marchioni
CEO, President & Chairman

Yes. Well, I think the first thing, I am not going to quantify specifically by line, but I will tell you, it is pretty consistent across all lines, and I used the word slight on an on-level basis when you took out the impacts of rate change on an on-level basis, we continue to see frequencies or low pre-pandemic levels, albeit slight. So that will be in the single-digit percentages, and it will vary a little bit by line. I understand your point about the reopening, but I think we have to recognize the economy is behaving differently post-pandemic than it has pre-pandemic. I mean I think the obvious has always been talked about is the shift at miles driven.

So even if they bounce back, the type of miles driven are different. I think shopping behaviors have changed. I think there is a whole bunch of behavior changes. I think the people working from home is a change. I think those things will all probably have some influence on frequencies for different lines of business, not just auto. It is hard to specifically point to any one of those items individually, but I think there clearly has been some consumer behavior change and some employee behavior change, all of which could accumulate to changed frequency patterns and, in this instance, result in a lower frequency pattern that might persist.

Again, I am not predicting that frequencies will continue to come down because they've been relatively stable the last couple of years and have settled out for a long enough period of time where it's a little bit of a trend that you could point to relative to pre-pandemic and again, you always want to look at this on an on-level basis, so you do not get a false reading but because of the price impact, if you let in price increases, you want on-level to get to a little newer frequency.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

That's really helpful. I appreciate that. I just had a quick question, too, on the high net worth business. You covered that a little bit, but could you give us a little more of an update? I know you mentioned the 20% growth, but in terms of how many states you are in, how many states do you think you will be in, in the next couple of years? And just the overall loss profile on where you think that might stand once you get that up and running versus where the book had been? Just anything more here on that is just based on what you learned so far?

John Joseph Marchioni
CEO, President & Chairman

Yes. So just in terms of the state footprint, we're in the same 15-state footprint that we were in when we launched the transformation. So, it is a portion of our commercial lines space. I can run through it if you want, but there has been no change to that for the state profile, and right now, we don't have immediate plans to expand geographically. And I say right now, we're expanding our footprint commercially.

And to the extent we continue to gain traction and gain confidence in the mass affluent market, we will evaluate the opportunity to potentially expand geographically as well, but take a very disciplined approach around that. With regard to the loss profile, again, I do not want to go too deep into that topic, but I will tell you in our historical view from a loss ratio perspective, there has been a difference, and it is been recognizable and we expect that difference to continue to benefit us from a mix change perspective. But I would rather not go into specifics in terms of what that means in terms of loss ratio points.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Sure. Yes, I understand. And just 2 other quick ones just on the investment side. The alternative, it seemed like that may have outperformed a little bit in the quarter. I think you mentioned some commentary. Was there any particular class that outperformed on that? Or anything more you can share on that?

John Joseph Marchioni
CEO, President & Chairman

Yes. It is alternativesâ€™ outperformance. It has been a bit of a growing allocation for us. It is an asset class that we really like. It is about 4.9% of our total invested assets with a heavier way towards private equity and to a lesser extent, private credit and real assets. When you look at the public market benchmarks, as you know, we are a quarter lag, so you have to go back to Q1 to see how the public market benchmarks performed. We were expecting a loss in Q2. We came in at that gain that I mentioned of the fact of about $7.4 million. Most of that gain came from private equity and then to a lesser extent, real assets, particularly energy and infrastructure and then private credit to a lesser extent.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. And then just a last one, too, you mentioned the $700 million in capital you expect to deploy in the fixed income over the second half of the year. Is that going to be typically in the same areas you looked in the first half? Or anything more you can touch on there?

Mark Alexander Wilcox
Executive VP & CFO

Yes. So, we've been very active this year from an investment perspective, really trying to optimize the portfolio and build book yield and would have been obviously a rapidly increasing interest rate environment. And then second, in the second quarter, a little bit of a widening of credit spreads with the market anticipation of a slowdown in the economy and a potential recession at some point. So, in the first half of the year, I mentioned we put $1.5 billion of cash flow to work into the book volume and increased the book yield by approximately 46 basis points, which is meaningful in terms of each of our recontributions in Selective.

In the second half of the year, we are anticipating about $700 million. That's obviously an estimate with a range around that. And that's just organic cash flow. So, when you think about mature natural maturities, coupons, and operating cash flow, we can source from the insurance operation move to our investment operations. That's without doing any proactive trade in the portfolio. Year-to-date, we have been very active from a sales perspective. So, it has not just been organic cash flow. We've created a portfolio to put new money to work.

In terms of allocations, we've really liked our securitized in the first half of the year and to a lesser extent, not taxable units, but mainly in the securitized sector, Agency RMBS, CMBS, and CLOs, we found attractive from a yield perspective and also from a credit quality perspective. So, as I have highlighted, one of the benefits of trade the portfolio this year has not only decreased the book yield, but become a little bit more defensive with a higher allocation to higher-rated securities going into what might be a little bit of a downturn from an economic perspective, so really accomplishing a couple of things.

And maybe one last thing I mentioned that it's embedded in our forward investment income guidance is the benefit of quality grade exposure being that were about [indiscernible] as LIBOR has moved up, and now SOFA is meaningfully on a year-to-date basis, that probably about 2.6 percentage points here today and those securities reset typically every 90 days. That's been a nice lift in terms of the book yield and contributed to the [indiscernible] that we have generated today and expectations for the full year as well.

Operator

We don't have any further questions on queue. I would like to hand for back to our speakers.

John Joseph Marchioni
CEO, President & Chairman

Great. Well, thank you all for joining us and look forward to speaking to you again next quarter. Thank you.

Mark Alexander Wilcox
Executive VP & CFO

Thank you.

Operator
Thank you. And that concludes today's conference for today. Thank you all for participating.