S&P Global
Market Intelligence

The Hanover Insurance Group, Inc. NYSE:THG

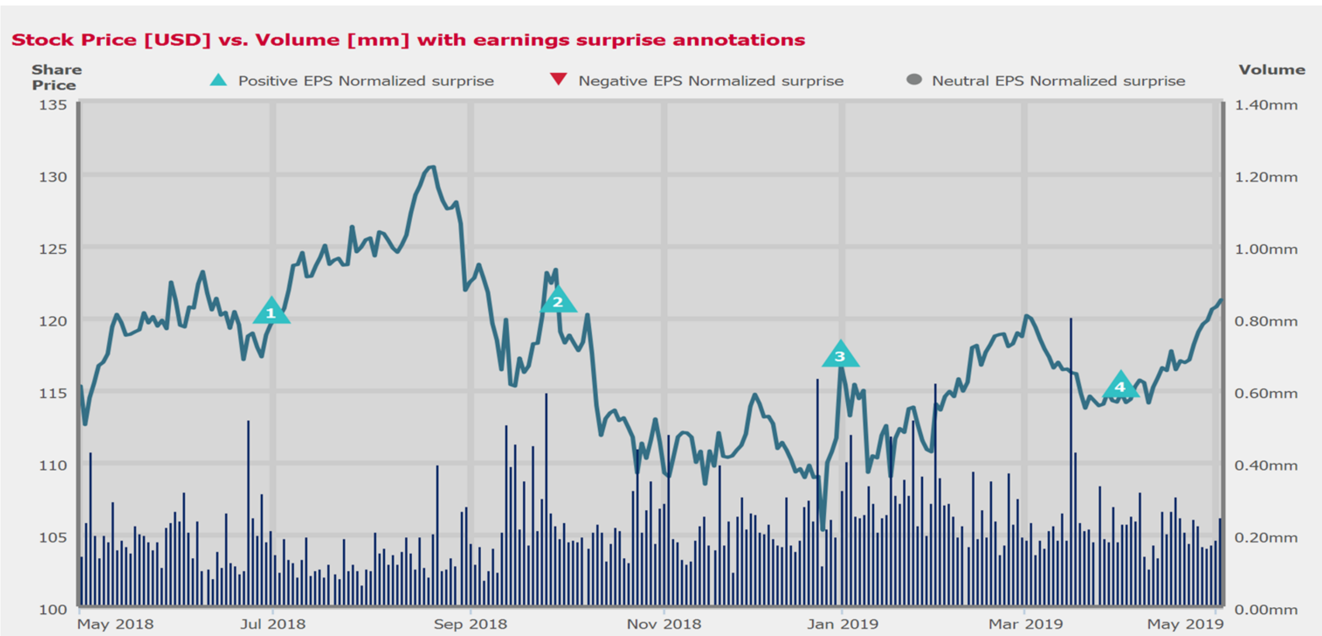
FQ1 2019 Earnings Call Transcripts

Thursday, May 02, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.74	1.96	▲12.64	2.01	8.12	9.08
Revenue (mm)	1137.00	1098.00	▼(3.43 %)	1138.00	4546.70	4861.28

Currency: USD
Consensus as of May-02-2019 10:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	2.07	2.20	▲6.28 %
FQ3 2018	1.84	1.97	▲6.49 %
FQ4 2018	1.47	1.51	▲2.72 %
FQ1 2019	1.74	1.96	▲12.64 %

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
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Richard William Lavey
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Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

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

At this time, I would like to turn the conference over to Oksana Lukasheva. Please go ahead, ma'am.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

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

Before I turn the call over to Jack, let me note that our earnings press release, financial supplements and a complete slide presentation for today's call are available in the Investors section of our website at www.hanover.com. After the presentation, we will answer questions in the Q&A session.

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements, including our guidance for 2019. There are certain factors that could cause actual results to differ materially from those anticipated. We caution you with respect to reliance on forward-looking statements and, in this respect, refer you to the forward-looking statements section in our press release, 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 operating income and accident year loss and combined ratios, excluding catastrophes, among others. A reconciliation of these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release, the slide presentation or the financial supplement, which are posted on our website, as I mentioned earlier.

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

John Conner Roche
President, CEO & Director

Thank you, Oksana. Good morning, everyone, and thank you for joining our call. This morning, I will provide an overview of our first quarter results as well as an update on the execution of our strategic initiatives. Jeff will review our financials in detail, and then we'll open the line for your questions.

Overall, we are pleased with the progress we have made in the first quarter and our ability to produce strong returns in a dynamic marketplace.

Our businesses performed well, delivering overall results consistent with our expectations. Our performance further demonstrates the strength of our market position and strategy as we continue to build momentum in our businesses, expanding insurance solutions for our distribution partners and policyholders and actively managing our business mix to maintain and enhance superior shareholder returns over the long term.

In the quarter, we posted an operating earnings per share of $1.96, a combined ratio of 95.8% and operating return on equity of 11.6% and an adjusted operating return on equity of 13%.

I would like to start with some highlights for the quarter. First, we generated consolidated growth of 2.7%. Growth in the quarter was tempered by the successful execution of our pricing and profit-enhancement initiatives, predominantly in our Commercial Lines portfolio, including commercial auto and our Program business. Excluding these specific actions, our overall premium growth was 4.3%.

We continued to maintain growth momentum in our most profitable segments, such as Personal Lines, Small Commercial and most of our specialty businesses. We also expect our new business initiatives in Commercial Lines to increasingly contribute to growth in future quarters. As a result, we expect our net written premiums to gradually increase throughout the year as, importantly, we are satisfied with the stable rate environment and price increases we are achieving across the portfolio. This includes price increases of more than 5% in each of our businesses: Personal Lines, Core Commercial and Specialty.

Second, our property loss results were a positive story overall with some variability between lines. Our first quarter accident year catastrophes were not significantly elevated despite an active catastrophe quarter in our geographic footprint. We also recorded favorable catastrophe prior year development of $13.5 million associated with the expected catastrophe recoveries related to an agreement to sell certain subrogation rights for the 2017 and 2018 California wildfires.

At the same time, we sustained large loss activity in our Specialty Industrial Property unit, HSI, including 2 particularly severe losses. We expect variability of results from time to time in this inherently volatile but extremely profitable business. HSI has demonstrated solid fundamentals and very attractive ROEs, and we are confident in its continued strong performance.

Third, ex-cat loss trends in our business were otherwise in line with our expectations. We believe our pricing actions and mix management strategies across our portfolio enable us to keep pace with the overall loss trends, and we remain intently focused on auto bodily injury trends to ensure our continued success.

Moving on to highlights by business, starting with Personal Lines. Our first quarter Personal Lines combined ratio was 98.2% and 89.9% on a current accident year ex-cat basis. This quarter's results reflected a more typical level of noncatastrophe winter weather in our northern Personal Lines footprint compared to lighter-than-usual experience in the first quarter of 2018.

Additionally, given the increasing impact of auto bodily injury severity, we remain prudent in our Personal Auto loss selections. We are carefully balancing rate and retention considerations and pursuing more aggressive rate increases in certain geographies and parts of our business as needed. Bodily injury coverage filed rates increased 9% in the quarter, and we have plans to continue to achieve significant increases going forward.

We maintained solid growth momentum in Personal Lines during the first quarter, increasing net written premiums by 6%. Rate increases, which ticked up 5% in the quarter, continue to be the main driver of premium growth. We also continue to see robust new business from our Hanover Platinum and Prestige products. Overall, we increased policies in-force by 3.3% over the prior year quarter while we maintained stable retention of 83.7%.

We are aware of increased competition in the market with generally lower rate increases from many personal lines players. Our ability to maintain our strong growth trends while achieving the level of needed rate in this environment is a testament to our strong market position and robust brand with agents and customers.

We continue to invest in innovative products and services, making it easier for our partners to do business with us and helping them grow. During the quarter, we continued the rollout of TAP Sales, our new agency quoting and service platform. With its recent launch in Maine, TAP Sales is now live in 14 states. We expect to complete the rollout across the rest of the Personal Lines footprint by the end of the second quarter.

In conjunction with the rollout of TAP Sales, our Prestige product offering continues to gain momentum across our footprint. SafeTeen, our telematics and online coaching product designed to keep new drivers safe on the road, continues to gain traction among agents and insurers. SafeTeen is now available in 14 states, and we expect to introduce it across our entire footprint by the third quarter.

These initiatives help us maintain robust new business flow and further enhance our focus on account business, which represents 84% of our policies in force and new business. Overall, we are pleased with our performance in Personal Lines, and we believe we can maintain growth levels across our book without compromising our strong profitability.

In Commercial Lines, we delivered a combined ratio of 94.2% and a current accident year combined ratio, excluding catastrophes, of 93.7%. Underlying loss trends are generally tracking in line with our expectations due in part to our ongoing pricing and mix initiatives.

Commercial Lines net written premiums growth of 0.8% reflects the solid execution of our strategy, including growth of our profitable Small Commercial, technology, Professional Lines and Marine units and the execution of our profit-enhancement actions in Commercial Auto and our Program business.

As expected and as noted on our last earnings call, these actions had a negative impact on growth in the quarter. For instance, Commercial Auto premiums declined by 4.3% as a result of increased rate and nonrenewal activity in less profitable geographies and sectors, including monoline, a majority of which are in our middle market business. We are sitting little to no impact on growth in our other lines, highlighting the strength of our relationship with our agents.

Concurrently, in our Program business, we are managing out specific programs that are performing below our target returns or are inconsistent with our franchise agency strategy. We reduced written premiums in our Program business by 12.4% in the quarter. Excluding these targeted actions, Commercial Lines growth was 3%, led by our more profitable segments. Commercial Lines pricing dynamics remain rational overall with specific opportunities and challenges by business, geography and industry class, requiring us to be deliberate and granular in our execution.

Overall, we increased core renewal pricing by 5.2% in the quarter, led by 9% rate increases in auto, while workers' compensation pricing continues to be challenged by continued low industry losses and strong competition. We are increasingly satisfied with our Specialty pricing levels, which are tracking at mid-single digits as well.

In addition, we continued to invest in our digital and product innovation strategy in Commercial Lines. In the quarter, we introduce Insurago, our innovative, customer-facing, digital insurance platform. This platform allows customers to pursue their insurance needs and questions online while providing an opportunity to engage the services of a professional adviser in the policy-buying process. And our partners are able to place their own personalized link into Insurago on their agency website or social media channels, and customers can then easily quote and buy an insurance policy through our company. This effort is consistent with our commitment to pursue innovation through and in partnership with our agents, helping our partners acquire new, more digitally inclined customers. At this initial stage, covered business classes include sole proprietors, independent contractors and very small businesses that require professional and general liability coverages. This is an underserved, fast-growing market estimated at approximately $20 billion.

Additionally, during the quarter, we continued to build out our Specialty leadership team to enhance our focus on growth opportunities and further drive value with our agent partners. In the first quarter, we appointed a new president of our Excess & Surplus Lines business to accelerate our growth in the retail channel in concert with our Small Commercial and middle market teams.

In addition, we have leveraged our internal talent to fill our open Surety President role with the goal to strengthen our commitment in the surety space. These enhancements round out a series of talent investments made over the last year in our Specialty businesses.

We also continue to drive innovation across our core competencies. We are investing in our data and analytics capabilities, which lead to higher customer satisfaction, operational efficiencies and improved loss ratios. We are focused on predictive modeling and imaging analytics, enabling our claims organization to assign claims to the proper resource earlier in the process. At the same time, we have improved our claim handling process through fraud detection and subrogation identification models. We also have implemented a self-service digital appraisal capability resulting in increased low-touch claims adjustments.

We are excited about the advancements we have made, and we continue to identify new and innovative ways to drive operational efficiencies and analytical insights across our portfolio.

We are well positioned as we move forward into the second quarter of 2019. We are executing on our strategy to drive growth in our most profitable businesses, to invest in innovation and to deliver on our long-term financial goals.

Before I turn the call over to Jeff, I would like to talk briefly about our recent annual President's Club gathering, where we hosted approximately 120 of our top agent partners that represent approximately $1 billion of our company's revenue. Our partners continue to be invigorated by our strong mutually beneficial relationships, our franchise strategy and our differentiated product offerings, which we continually evolve to meet the needs of our customers. This event provided me and our leadership team with even more confidence in our strategic direction and long-term success and, of course, additional ideas for taking our company to the next level. I have attended this event for the 12 years that I have been at the Hanover, and this year's President's Club was the most engaging and encouraging of them all.

With that, I will turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack. Good morning, everyone. For the first quarter, we generated net income of $122.4 million or $2.97 per fully diluted share compared with $67.7 million or $1.57 per share in the prior year first quarter. After-tax operating income was $80.7 million or $1.96 per diluted share compared with $66.1 million or $1.54 per diluted share in the prior year quarter. The difference between net income and operating income per share in the quarter primarily reflects the increase in the fair value of equity security investments.

Our combined ratio was 95.8% compared with 96.6% in the prior year quarter. The improvement was primarily from catastrophe losses when compared to the more severe catastrophe weather experienced in the prior year quarter.

Current accident year catastrophe losses totaled $52.9 million in the first quarter of 2019 or 4.8% of earned premium, slightly above our plan primarily related to severe winter storms in the Midwest and Northeast. Despite the northern industry cat footprint in the first quarter, our relatively moderate cat loss experience is a reflection of our past exposure management and portfolio diversification initiatives. We also recorded favorable prior year catastrophe reserve development of $13.5 million or 1.2% of earned premium, which brought our total cat ratio for the first quarter of 2019 to 3.6%.

As Jack said, we reached an agreement to sell a meaningful portion of our 2017 and 2018 California reserve recoveries associated with the Atlas, Thomas, Camp and Woolsey wildfires for a pretax net benefit of $13 million. Considering the uncertainties associated with the recoveries, potential additional litigation cost and the timing of resolution, the ability to collect a meaningful portion of the subrogation claims now was very attractive.

Excluding catastrophes, our overall prior year reserve development was immaterial in the quarter with Commercial Lines favorable development offset by reserve additions in Personal Lines. Given the size and complexity of our business, we continue to expect variability as losses mature. We will continue to carefully monitor and actively respond to trend changes in order to avoid more significant adjustments and to remain on top of industry trends.

The expense ratio improved 50 basis points from the prior year quarter to 31.9% driven by earned premium leverage with continued expense reductions funding business investments as well as the impact of the timing of certain expenses. We continue to maintain a disciplined approach to expense management, and we remain committed to deliver the expected expense ratio improvement of 20 basis points moving forward.

Our current accident year loss ratio increased 2.3 points from the prior year quarter to 60.3%. I will discuss the drivers behind it in more detail in my review of our underwriting results by business, starting with Personal Lines.

We delivered a Personal Lines combined ratio, excluding catastrophes, of 91.6%, up from the 89.1% posted last year. The increase was driven by both unfavorable prior year development and an increase in current accident year losses. We increased our Personal Lines prior year reserves by $7.5 million or 1.7 points of the combined ratio in the quarter. This increase was related primarily to Personal Auto. We continue to see elevated severity of bodily injury losses from intensified attorney involvement, extended time frame related to the submission of the treatment costs and additional medical treatments. Our Personal Lines current accident year loss ratio increased 1.5 points from the prior year quarter to 62.3%.

The homeowners' loss ratio of 48.7% was 2.8 points higher due to more normal winter weather compared with lower noncat weather activity in the first quarter of 2018.

Our Personal Auto loss ratio of 70.6% was 0.7 points higher compared to the first quarter last year. While initial 2019 claim activity in this line is stable, we are maintaining our prudent view on auto bodily injury loss selections. We achieved filed rate increases in this coverage of 9% while the overall auto rate increased by 5.2% in the quarter. Personal Lines net written premiums increased 6% in the quarter, largely the result of rate increases and healthy new business trends.

Moving to Commercial Lines. Our combined ratio, excluding catastrophes, was 92.6%, up from 91.2% posted last year. The increase was driven by higher current accident year losses partially offset by favorable development and lower expenses. During the quarter, we recorded favorable prior year reserve development of $7.5 million or 1.1 points of the combined ratio driven primarily by continued favorability in workers' comp as well as CMP due to some favorable settlements of large cases this quarter.

Our Commercial Lines current accident year loss ratio, excluding catastrophes, increased 2.2 points to 58.8%. These results were driven by large property loss experienced in our Specialty Industrial Property line and the timing of the increased Commercial Auto loss ratio selections last year.

While our Auto current accident year loss ratio ex-cat of 69.8% is up 1.7 points from the prior year quarter, it actually represents a slight improvement over the full year ratio we posted for 2018. Commercial Auto underwriting remains under pressure, but we are pleased to see signs of stability in our results in this line due to the impact of substantial earned rate increases and ongoing underwriting activities. Our CMP current accident year loss ratio ex-cat of 55.9% was in line with the prior year quarter and expectations.

Turning now to workers' comp. We posted an ex-cat accident year loss ratio of 59.7%, down 1.1 points from the prior year quarter. We're pleased with the continued strong performance of this line. As Jack mentioned, we experienced large loss activity, including 2 severe losses in our Specialty Industrial Property business, which is reported in Other Commercial Lines. The current accident year loss ratio in Other Commercial Lines, excluding catastrophes, increased by 6.3 points to 57.6% in the first quarter of 2019 due entirely to the impact of the Specialty Industrial Property large loss activity. These losses were material in the quarter as we expect variability in this line given the nature of risks we insure. However, this book produces outstanding returns, having delivered a 10-year average combined ratio in the mid-70s and a solid underwriting profit every year.

Commercial Lines net written premiums grew 0.8% for the quarter, reflecting the planned underwriting actions in our Commercial Auto and Program business. We continue to actively manage our portfolio of businesses through thoughtful capital allocation to profitable opportunities. We believe this financial rigor is critical to our long-term success.

Moving on to our investment performance. Net investment income was $70.2 million for the quarter, up 6.4% from the prior year period due to the investment of cash flows from operations and the remaining proceeds related to the Chaucer sale. This was partially offset by lower partnership income.

Cash and invested assets were $7.9 billion at March 31 with fixed income securities and cash representing 85% of the total. Our fixed maturity investment portfolio has a duration of 4.3 years and is 95% investment-grade. Our well-laddered and diversified portfolio remains of high quality with a weighted average of A+.

Our operating effective tax rate for the quarter was 19.6%, lower than the statutory rate due to the impact of tax deductions on certain stock compensation. We anticipate the effective tax rate going forward will approximate the statutory rate of 21%.

Turning now to equity and capital position. Our book value per share was $71.95, up 3.1% for the quarter, compared with $69.81 per share at year-end. The increase was attributable to earnings. Unrealized gains from both fixed and equity investments were offset by the payment of quarterly dividends and the impact of the ASR agreement, including normal dilution and the timing of the share count reduction.

As noted on our Q4 call, the accelerated share repurchase agreement, which had a settlement date of January 2, is reflected in our first quarter results. Our ending book value was reduced by the total value of the agreement, $250 million, while our ending share count for the quarter was only reduced by approximately 80% of the initially expected number of shares to be repurchased. The ASR will conclude in the second quarter with the remaining shares to be retired at that time. This should benefit the share count for both earnings and book value in the second quarter.

Our current balance of remaining Chaucer-related deployable equity is approximately $400 million. We fully expect to follow our stated capital allocation framework, deploying capital through either investment in profitable business opportunities or returning capital to shareholders. We will communicate our next steps at the appropriate time.

Operating return on equity was 11.6% for the quarter or 13.1% after adjusting for the remaining deployable equity and the net investment income related to the Chaucer sale.

Overall, we are very pleased with our results in the first quarter, which are a function of our clear strategic focus, financial discipline and commitment to delivering sustainable top-quartile results. We expect to deliver on our full year 2019 original guidance, and we note that our second quarter catastrophe assumption is set at 5.5%. In addition, while we expect net written premiums to increase sequentially, our second quarter Commercial Lines growth will be impacted by the continued execution of our underwriting actions in our Commercial Auto and Program businesses.
With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And your first question will be from Bijan Moazami from Compass Point Research.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

A couple of questions regarding the 2 lines of businesses that you're shrinking. Program business is not a big chunk of what you guys do, but I'm trying to understand how many MGA relationships you have there. And when you decided to shrink it, did you target a particular program? Or did you target a particular MGA that was not performing? And how does that business overlap in terms of product with your core agency distribution?

John Conner Roche
President, CEO & Director

Bijan, this is Jack Roche. Thank you for that question. As you know, we have been repositioning our Program business over the last few years, frankly, to move much more towards controlled, specialized programs, programmatic business in the retail channel, less MGA-centric, unless the MGA is embedded in a retail agent of which we have a high-quality relationship more broadly. So we are substantially more retail agency-focused programmatic business that we believe is in categories that we can underwrite, oftentimes, leveraging the expertise from more -- some of our more specialized underwriting units and have moved the portfolio quite substantially in that direction.

The other part of your question is, from a profitability standpoint, we went into the year as we always do with a border row of programs that are performing very well, some that are performing adequately and others that are on the fence. We hold a high bar on what we expect those programs to perform at.

And so maybe I'll just turn it over to Bryan to add a little bit more color about the discipline that we're executing there.

Bryan James Salvatore
Executive VP & President of Specialty

Thanks, Jack. Yes, I think what I would add is that we do have 33 programs. And as Jack mentioned, most of those programs are performing quite well. Some of them are really not meeting our threshold. And so as we look at those, we do put pressure on the pricing, the terms and conditions, and in some instances, that means that some of those programs are nonrenewed. But an important piece of what we're doing is also increasing our fee-based business. And so our focus in the near term is building up that fee-based business so there's a balance over time of fee-based business and our traditional Program business. And so as we are putting pressure on that small subset of our underperforming programs, we're growing our new business in the fee business, and that doesn't come through on the net written premium line. So the reduction you're seeing is really due to, in large part, taking action on programs that are not meeting our expectations and then replacing that with new business that really doesn't come through on the net written premium line.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Can you give me an example of the fee we generate from the program?

Bryan James Salvatore
Executive VP & President of Specialty

It's -- there's a mix each time we sort of write one of these programs. At the top of my head, I don't have it available to us. But it does absolutely have a nice contribution to us over time in terms of our income and the effective expense ratio as well.

John Conner Roche
President, CEO & Director

Yes. Bijan, this is Jack again. As you go through the transition that's going on in the Program space, again, with our bias towards agents that really control a broader subset of the business with us, there are agents that are willing to set up either captives or arrangements where somebody, a reinsurer is taking a bigger part of the capital. And we can manage the program, leverage the kind of industry-leading platform that we built a few years ago and, therefore, work with the program administrator to provide that chassis and allow the agent and/or customers to take the risk. And so that's really a function of really the hardening of the program sector over the last few years and more and more that business kind of making its way into that model.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

That makes sense. On Commercial Auto, obviously, you're getting a lot of rate increase, 9%. What are you seeing in terms of frequency and severity in that trend? Are we getting to a point where the business might become profitable? Or is that dynamic that we've been experiencing for the past many years is continuing, which is more losses?

John Conner Roche
President, CEO & Director

Yes. This is Jack. I'll let Dick speak to some of those specifics, but I'll remind you and others that with respect to Commercial Auto, we think of this as the fifth or sixth line of business in our account strategy. Most of what we're doing in the Commercial Line space is trying to be an account writer in the sectors of the business where we think our agents can leverage our capabilities and produce returns for us. And so in that context, we're trying to look at the Auto line and where the Auto line is being subsidized, if you will, by the rest of the account or the sector, then we try to manage it accordingly. Those lines or those sectors that are -- tend to be more account or Auto-centric is where we are particularly forceful with rate and underwriting actions.

And so Dick, if you want to build off of that?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Sure. So to your specific question, we continue to see frequency flat to declining, but mostly flat. But the severity is really still topping in the bodily injury coverage, and those trends frankly have remained the same, those external forces that we've seen. The economy remains strong. Distraction remain -- distracted driving remains an issue. Telematics really hasn't kicked in. And coupled with that, we still see attorney involvement. I think we've shared before that that's been on the increase over the last 5 years, which then drives the indemnity costs up. So naturally, we've been driving rate. And we've been -- as you commented, we've been increasing the rate that we've been getting on the book this quarter with that 9%. But if you look at the most recent months, we're pushing that towards 10%, which we will continue to do. So it's really the levers you pull are rate and underwriting, reducing our monoline auto on the book, shifting away from heavy auto classes, as Jack just suggested, the wholesaler class being one of those. But we're really quite happy with the mix of our book. It continues to be a light truck and PPT-centric book, about 70% of it is light trucks and PPT. So we think about classes. We think about geographies. There are certain geographies where these trends are stronger, some of the New Jersey, New York metro areas. So we're going to continue to stay disciplined on it, including in our new business pricing, right? Because we don't want to work so hard to fix this book, this trend and then to put business on the books at below-standard pricing. So it's a comprehensive approach. But we are -- those trends continue, and I think we're getting after it the right way.

John Conner Roche
President, CEO & Director

Bijan, this is Jack. One last thing on this is, again, the industry is still performing in Commercial Auto in total north of 110 combined ratio. So I'm sure there are subsectors of that, that are repairing more quickly. But as I said at the onset, we're really not targeting trucking- or transportation-oriented accounts. And so if we were and if that was a specialty area that we had, maybe we would start to think about where do we get a little more bit more offensive, but we think the industry is a little bit still away from being able to think of auto in a very offensive way.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

And maybe just last point I'd add, we -- Jack referenced this, but something we watch very closely is the retention on the other lines as we drive this line hard. And we're really pleased that our retentions in the companion lines, they're meeting our expectations with regards to retention.

Bijan Moazami
Compass Point Research & Trading, LLC, Research Division

Just one last clarification quickly. The $85.8 million of Commercial Auto that you mentioned in your press release, these are all monoline, correct?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

No. Not necessarily. Some portion of that's monoline, some of it is in these heavy kind of auto-centric classes.

John Conner Roche
President, CEO & Director

Yes. Monoline is a smaller number.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

A small portion of our...

John Conner Roche
President, CEO & Director

It's a much smaller number than that number you just mentioned.

Operator

The next question will be from Christopher Campbell of KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Congrats on the quarter. All right, I guess behind -- beyond like the $400 million from Chaucer, what would you estimate the total excess capital is? Because I don't think you guys are at like target underwriting leverage, are you?

Jeffrey Mark Farber
Executive VP & CFO

Chris, this is Jeff. We haven't given out our excess capital. We obviously look at rating agencies. We look at our internal economic capital. We feel very comfortable with the capital that we have, and we've managed that in that framework for a long period of time. We've described the excess Chaucer capital, and I think in the short run, that's what people should people think about the redeployment opportunity.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And then can you walk us through the math on the subro sale? Why was this attractive for Hanover right now?

Jeffrey Mark Farber
Executive VP & CFO

So as you know, we don't write Personal Lines in California. So being a Commercial Lines writer, these tended to be chunkier, clearer, more straightforward claims that were very attractive to financial institutions that wanted to buy these things. The -- obviously, there are gross losses. And to some degree, reinsurers participated in providing us -- sharing in those losses. We sold a variety, which we described earlier on the call, of the wildfires to a financial institution. There were -- some of those proceeds have to go back to the reinsurers. We have some law firm proceeds to pay some other expenses, and then we net down to $13 million. We haven't sold all of them. We've sold the majority of those rights. But for us, if you think about the amount of time that it will take to collect the uncertainty around potential bankruptcy filings, the additional costs associated with collecting, it just felt like a good trade for us to monetize that opportunity and get certainty at a reasonably high percentage.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And then just switching to Personal Lines, looking at the retention trends. I mean rates are a little bit better but don't seem super high, but, I mean, is competition increasing? Is that what's driving your lower retention?

John Conner Roche
President, CEO & Director

This is Jack. I think we noticed, as others have, as people get healthier and deal with some of their frequency challenges in the past that frankly we didn't experience as much, they're getting on top of their loss trends and they are starting to at least become less firm in their pricing. So it's hard to say where all that's going to go, but I'll let Dick comment on the fact that we are pleased that we have some stability in our pricing despite the fact that we have a very profitable book of business, and some of the pricing in the market is starting to come at us a little bit.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. So Chris, I'd start with the point that our retention in Personal Line this quarter has been consistent with what we saw in Q4. We've been really fairly consistent with the rate that we've been taking. We've been taking it up on the BI side 9 points, but the overall rate of high 4s, 5s, has been pretty consistent. So we watch that balance carefully, what -- where we can push rate and maintain an adequate level of retention, and we're pleased with it. The book is performing really, really in a top-quartile position. And we think our account strategy and the kind of the commitment that we have at the desk level and the agency level is going to allow us to navigate through this as we push more rate.

We are seeing certainly some competition in the marketplace, but what makes us feel really confident as we can see the finish line on the rollout of TAP Sales is the level of kind of commitment we're feeling at the transactional desk level with the account manager. So our submission rates are up kind of mid-single digits, so we're getting more swing at the bat. Our PIF is growing at 3%. So we have what we like to say as interest in the firm is up. So this -- our account strategy, the value proposition that we offer, the quality of the products, the prestige, we have -- we're bringing a lot to the market, and that's helping us navigate through what we think is kind of a standard kind of pricing level that we'll consistently need to drive into the future.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And do you think like maybe you need to ease up on rates, I mean, if everybody else is getting healthier? Or is it just you guys are fine to shed PIF, if that make sense?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

No. I think -- we think this is the kind of the maintenance level of rate. Others, if you look where their starting point is, where they're coming down to, and it's kind of in a mix of business, you'll have to parse through that. With the account-level strategy, we're going to try to keep this at a maintenance level. But we'll...

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then Just one last one on workers' comp. So I mean I understand the reserve releases, but really surprised that the core loss ratios keep declining year-over-year. I think 4 out of last 5 quarters, you guys have declined year-over-year, especially if you think about like widespread reports of rate pressures and other competitors are increasing those loss picks. So I guess, just why aren't these like leveling out or potentially rising in Hanover's case?

John Conner Roche
President, CEO & Director

Chris, this is Jack. As you would expect, we study this religiously because we've worked hard to put ourselves in a position where our workers' comp portfolio is very profitable, very complementary to the book of business that we write. And we like to believe because we're more account-centric and we play in the low to lower end of middle market that our business is a little bit less maybe price-sensitive. And we've seen that in that some of the pricing in the market, we're able to kind of not giving back quite as much because we're talking about an account proposition. But at the end of the day, we are -- we continue to be pleasantly surprised with something actually below benign loss trends. It's unprecedented in our industry. We believe it's not only a function of a stable economy but also because of some of the jobs that have been repositioned. We spent some time with NCCI and others to try to explore this and understand why the loss trends continue to be so favorable. And frankly, there's a prevailing view that there's some sustainability to the loss trend improvement because of the way jobs have changed over time and, to some degree, the economic stability we're experiencing. So we're pleased. Our results are what they are, and we -- but we watch it like a hawk and make sure that if there's any kind of change in trends, we stay on top of it.

Operator

The next question will be from Amit Kumar of Buckingham.

Amit Kumar
The Buckingham Research Group Incorporated

A few follow-ups. The first question is going back to the discussion on Commercial Auto. On Page 9, the initial loss pick is 69.8%, it was 72.2% year-end 2018. And so what I was trying to reconcile is, on one side, your initial loss pick is lower, and on the other side, we're seeing adverse development. And we've also trued up in the back half of the year. What exactly is the talk process? Why not remain conservative and maybe down the road take down the loss pick versus moving to somewhere around from year-end to Q1?

John Conner Roche
President, CEO & Director

Yes. Amit, this is Jack. I certainly appreciate as you're trying to follow the waterfall or the flow of the numbers. I think the better comparison, though, is to look at the full year as we reconcile loss trends each quarter and then compare that to our first quarter and look at the level of rate that we've been putting through the book of business in the last 18 months in particular. We feel like we've -- we're starting to see some improvement there that is worthy of acknowledging in our current accident year picks. I think all-in, though, we still feel like we're being very prudent and not trying to overreact to underwriting actions or things that we're doing. And as we showed you in this quarter, we are not -- we are taking some fairly material actions on the underperforming part of our book that isn't fully contemplated, frankly, in our picks.

Amit Kumar
The Buckingham Research Group Incorporated

So coming to Q3, you are very confident that we will not be looking at an uptick in the loss pick?

John Conner Roche
President, CEO & Director

Listen, we've been humbled like everyone else in this line of business, Amit. So I think it would be inappropriate for us to make any guarantees, but I think we work hard at this to try to make sure that our picks are realistic, and we have some confidence in our overall picks at this point.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. Switching to Personal Auto, you obviously gave good color. I'm curious, Progressive talked about it, the change in, I guess, I don't if it's outlook, talked about competition, how things are changing. We talked about it in detail on the Allstate call. Are you thinking about -- especially as you deal with severity trends in BI, are you thinking about this line differently in Q1 versus how strong it was all over 2018 for the industry?

John Conner Roche
President, CEO & Director

I'll have Dick respond to that.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. No, I think we manage this book as a portfolio, right? So we look at the Auto line and its performance and what our target returns are, which drives, of course, our pricing levels. And then, of course, we pair that with our Auto line and our umbrella line. And as we pointed out, this portfolio hits or exceeds our target returns expectations. So I wouldn't say we're thinking about the line differently. We're cautious. We've been a consistent pricer, as I said, for over the past several quarters. And so on this BI emergence, I'd say our picks were relatively tight, and so we're just adding more rate to that, the 9 points. And we think in due time, that should make its way into the performance. But as we sit here today, when we look at our performance relative to the industry, the last couple of years, we've been between 1 to 3 points better than average. So it's an important part of our value proposition. So we think of the lines in a combined passion.

John Conner Roche
President, CEO & Director

Yes. And Amit, this is Jack. Again, I remind people, when we look at the Personal Lines marketplace, it really has changed over time. And you have, obviously, direct writers that have been working on low limits, monoline auto business and are now trying to figure out how they tweak their strategy. You actually have fewer national carriers that are focused on this sector and certainly fewer of those that have as robust account strategy as we do. And over the last few years, the regional carriers have actually stepped up market share against the national carriers in the nondirect space. And we stand out, frankly, as a real industry leader in terms of how our product comes to market and blending pricing sophistication and synchronizing those algorithms so that we have an account strategy. That's a fairly complex thing to do. And once you're there, you do put yourself in a somewhat defensive position.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Maybe the last point I'd make is, of course, we study this line in our book with some really important quality metrics in mind. We -- over 90% of our book has auto liability limits of 100, 300, almost 60% are multicar accounts. So the quality mix to us is important. We think over the long term, it is going to drive a good result.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The only other question I had was on the subrogation fees. I would -- is there any adjustment to the reinstatement premium included in that favorable development number or no?

Jeffrey Mark Farber
Executive VP & CFO

No. That's not a meaningful portion of the adjustment. It would be -- that $13 million is net of all costs of reinstatement. So that's not really a part of this particular area.

Amit Kumar
The Buckingham Research Group Incorporated

And this -- the $13 million, I guess, 2 other pieces. I know that some of these claims are sold on, I don't know, $0.35 on the dollar, et cetera. Can you maybe, first of all, talk about how should we think about, I don't know, maybe the gross amount of subrogation proceeds you might have received? And also talk about how do the gross losses for all the fires you mentioned in your opening remarks, what is the pre and post subro gross loss?

Jeffrey Mark Farber
Executive VP & CFO

Yes. We have not shared that. If you go back and read, which we did disclosures on '17 and '18, you know they weren't outsized. Otherwise, they would have -- we would have shared those. We didn't have Personal Lines. If we exclude a Chaucer, obviously, there were some Commercial Lines losses. I think it would be misleading to give all of that information because of all the complexities. We certainly could give the gross loss, we could give the reinsurance, we could give the percentage, then we'd have to give whether there were any contingent payments to law firms and we'd have to show you the waterfall of how much went back to the reinsurer by claim. So what we chose to do is to share $13 million. That was net of all costs, all payments, all information, and we told you specifically which wildfires it relates to. There are a couple of other wildfires, largely Tubbs, that we have not solved. We're hanging on to that. We're evaluating that one closely. But I think it is the most effective information in terms of a disclosure just to really give you the net. Otherwise, it would be confusing to most.

Amit Kumar
The Buckingham Research Group Incorporated

Fair point. And then just finally and I'll end here. On the capital management, I think maybe Chris was asking this question, in your opening remarks, you talked about opportunity versus additional deployment down the road. I'm curious, has there been any evolution in the thought process in terms of those opportunities versus when we talked about this in 2018, i.e., I know that at that time probably the thought process was that most of it would be returned, maybe a small portion gets reinvested in some sort of acquisition, which makes sense. Are you -- just based on the direction of the marketplace and the pricing, has your thought process evolved where maybe the desire is to hold on to that -- the remaining sale proceeds or not?

John Conner Roche
President, CEO & Director

Amit, this is Jack. I'll start, and certainly, Jeff can jump in. I would say that our thought process and the framework has not changed much at all. It's a very dynamic time in our business. We never know when opportunities are going to present themselves. I think we were very disciplined out of the gate to say that we are not going to do something outsized that would -- or certainly would come outside the criteria that we set that would make an inorganic opportunity be beneficial to us. So we're playing out the strategy that we articulated. And so as we move through the second quarter and we finalize the results of the

ASR outstanding, we'll revisit where we are. We'll certainly know what's in the pipeline in terms of any opportunities, have a better sense of what our growth looks like in the second quarter, and we'll move to the next phase.

Amit Kumar
The Buckingham Research Group Incorporated

And any -- sorry, go ahead.

Jeffrey Mark Farber
Executive VP & CFO

Go ahead. Do you want to finish the question, Amit?

Amit Kumar
The Buckingham Research Group Incorporated

Yes. Just one, and I'll stop here. There hasn't been any change in the time line, right? I mean we get through Q2, then we get through the wind season, and I know in the past we talked about potentially rethinking this year-end. This is not getting pushed into 2020 is, I guess, what I was trying to ask.

Jeffrey Mark Farber
Executive VP & CFO

I would say there has been no change in our thinking in terms of time line. We haven't been specific in time line. We've been giving you some indication without specificity. Again, we've delivered $450 million back to shareholders. There's $400 million remaining to be redeployed. The nice thing about it is we're finishing the ASR. We've been studying it very carefully and thinking about our options, and we get to wait and see how things are playing out, what opportunities there are before we actually pull the trigger and share that with you. But there has been no change in our timing, our thinking or our commitment to you to redeploy it in short order.

Operator

And ladies and gentlemen, that will conclude our question-and-answer session. I would like to turn the conference back over to Oksana Lukasheva for her closing remarks.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you, everybody, for your participation today, and we are looking forward to talking to you next quarter.

Operator
Thank you. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.