S&P Global
Market Intelligence

Selective Insurance Group, Inc. NasdaqGS:SIGI

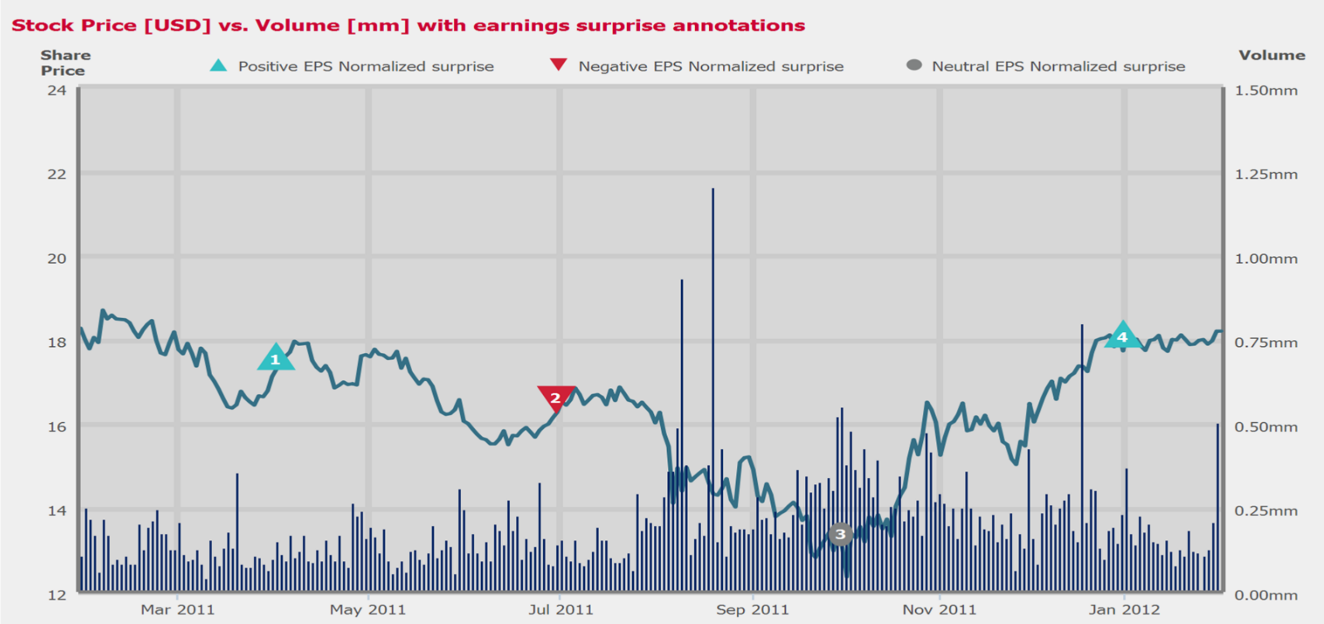
FQ1 2012 Earnings Call Transcripts

Thursday, April 26, 2012 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.37	0.28	(24.32 %)	0.33	1.47	1.64
Revenue (mm)	428.44	419.35	(2.12 %)	426.04	1701.35	1813.96

Currency: USD
Consensus as of Apr-26-2012 3:28 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.29	0.32	10.34 %
FQ2 2011	0.02	0.01	(50.00 %)
FQ3 2011	(0.45)	(0.34)	NM
FQ4 2011	0.31	0.33	6.45 %

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Call Participants

EXECUTIVES

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Gregory Edward Murphy
Chairman & CEO

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

John Joseph Marchioni
President & COO

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Raymond Iardella
Macquarie Research

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Welcome to the Selective Insurance Group’s First Quarter 2012 Earnings Release Conference Call. At this time for opening remarks and introductions, I would like to turn the call over to Senior Vice President -- Investor Relations and Treasurer, Ms. Jennifer DiBerardino.

Jennifer Wilson DiBerardino
Former Sr. Vice President, Investor Relations & Treasurer

Welcome to Selective Insurance Group's First Quarter 2012 Conference Call. This call is being simulcast on our website, and the replay will be available through May 25, 2012. A supplemental investor package which includes GAAP reconciliations of non-GAAP financial measures, referred to on this call is available on the investor’s page of our website www.selective.com.

Selective uses operating income in a non-GAAP measure to analyze trends and operations. Operating income is net income excluding the after tax impact of net realized investment gains or losses, as well as the after tax results of discontinued operations. We believe that providing this non-GAAP measure makes it easier for investors to evaluate our insurance business.

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties.

We refer you to Selective's Annual Report on Form 10-K and any subsequent Form 10-Qs filed with the US Securities and Exchange Commission for a detailed discussion of these risks and uncertainties. Please note that Selective undertakes no obligation to update or revise any forward-looking statements.

I would like to take this opportunity to mention that we will be hosting investor day for the institutional investors and analysts the afternoon of May 14, in New York City.

A broad group of our management team will present and we will hold a panel discussion with several of our independent agents. The event will be webcasted and can be accessed through our website, beginning at 1:30 pm that afternoon. Please contact me if you would like to attend.

Joining me today on the call are the following members of Selective's executive management team, Greg Murphy, CEO; Dale Thatcher, CFO; and John Marchioni, EVP, Insurance Operations; and Ron Zaleski, Chief Actuary.

Now I'll turn the call over to Dale to review first quarter results.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Continually improving commercial and personal lines pricing and a quite catastrophe quarter drove first quarter results, providing an overall statutory combined ratio of 99.1%. In addition, both commercial and personal lines turned in combine ratios on a statutory basis under 100, and we achieved our 12th consecutive quarter of commercial lines price increases.

For the quarter we reported operating income for diluted share of $0.28, as compared to $0.30 a year ago. Improved underwriting profitability drove the results partially offset by lower net investment income. The first quarter statutory combined ratio of 99.1 was a 3.5 point improvement from the year-ago quarter.

Catastrophe losses in the quarter was $7 million pre-taxed or 1.8 points. This was below our annual budget of 2.5 points, but more in line with our longer term historic average. Favorable prior year casualty development of $3 million or 0.8 points, and an improvement in Personal Lines profitability drove results.

The total statutory net premiums written were up 16% in the quarter, with commercial lines net premium written up 18%. Commercial lines growth included the E&S business, which contributed $26 million in the quarter, along with audit and endorsement additional premium of $5.7 million. Audit and endorsement premium has now been positive for 4 quarters in a row.

Commercial lines renewal pure price was up 5.1% for the quarter and retention improved 3 points to 83% from a year ago. Our granular pricing strategy has allowed us to achieve higher price increases, while retention has also moved higher.

The commercial lines statutory combined ratio was 99.2% in the quarter. Commercial property and commercial auto continued to perform very well in the quarter, reporting combine ratios of 83.9 and 96.6 respectively.

The BOP line reported a first quarter statutory combined ratio of 99.4%, including favorable prior year casualty development of 5.9 points. The increase in the first quarter expense ratio is largely related to additional underwriting expenses, associated with our E&S business, which added one point to both the statutory and GAAP expense ratios. Half of which is related to first year acquisition expense.

Upon acquisition, MUSIC's unearned premium were fully seeded, which resulted in a GAAP underwriting expense ratio being under some additional pressure, until the premium that we write is earned and is able to support the ongoing expenses of these operations. This will be the case throughout the balance of 2012.

Personal lines net premium written grew 7% in the quarter to $66 million, and the statutory combined ratio was 97.7%, which included 4.4 points of catastrophe losses.

For personal lines, catastrophe losses were higher by about 1.6 points, driven primarily by tornado and thunderstorm activity in the south and Midwest. We are encouraged by the underlying improvement in our personal lines results.

Turning to investments, first quarter after tax net investment income declined 23% from a year ago to $25 million. The decline was largely driven by alternative investments, which produced after tax income of $1.5 million in the quarter, versus $7.6 million last year.

While the majority of our alternative investments report on a one quarter lag, equity market performance is not entirely predictive of the performance of our alternative portfolio. This is largely due to the mix of our investments, which included energy, mezzanine debt, real estate and private equity.

The after tax yield on fixed maturity securities was 2.6% for the quarter, down about 20 basis points from both the fourth quarter and the year ago period, reflecting the continued low interest rate environment.

Invested assets increased 5% from a year ago to $4.2 billion. Our overall fixed income portfolio maintained a high credit quality of AA minus and a duration of 3.2 years including short-term.

We began to redeploy the short-term investment position acquired from the MUSIC transaction through the purchase of corporate and Selective reentering the municipal bond market with investments in high quality issuers.

Compared to a year-ago the portfolio unrealized gain position improved to $165 million pre-taxed at March 31, 2012 from $75 million. Also noteworthy is the quarter end unrecognized gain position in the fixed income held-to-maturity portfolio of $45 million pre-tax of $0.53 per share after tax.

Surplus and shareholders' equity remained strong at $1.1 billion at March 31. Book value per share increased 4% to $19.76 from $19.06 at March 31, 2011, which has been restated to reflect the adoption of the deferred acquisition cost accounting change on January 1, 2012.

The restatement resulted in an approximately $1 per share reduction in historic book value per share numbers. Our premium to surplus ratio remained flat with last quarter at 1.4 to 1. We continually review options to maximize shareholder return and are encouraged by the improving insurance market conditions for growth opportunities.

Now I will turn the call over to John Marchioni to review the insurance operations.

John Joseph Marchioni
President & COO

The market is clearly firming and we continue to find less resistance to price increases in commercial lines. As a result, we achieved our 12 consecutive of commercial lines price increases with a positive 5.1%. The trend remained positive throughout the quarter with 4.5% in January; 5.3% in February, and 6% in March. We fully expect this trend to continue.

We believe we are in excellent position to take advantage of the improving commercialized market place. We spent years implementing pricing and underwriting tools that allow our underwriters to have the information they need at their fingertips to make informed decisions in real time on their account portfolios.

We are third generation of commercial lines predictive models. Carriers that are rolling out modeling for the first time could struggle against companies like Selective, who have had models in place and refine them overtime.

The predictive model output is just one of the many tools our underwriters have to make sound policy level decisions on both rates and retention. We rolled out our dynamic portfolio manager to renewal underwriters in 2010.

This tool has numerous inputs including modeling that assist the underwriter in maximizing results in their account portfolio. It provides "what if" analysis capabilities for renewal that result in optimal pricing guidance while demonstrating a loss benefit impact on the underwriters' entire portfolio.

On the lesser quality business, it gives them a much better sense of true walk-away pricing. This is a very strong tool and it's been embraced by our underwriters as invaluable.

Turning to commercial lines, direct new business was up 48% to $70 million, compared to the first quarter of 2011. As we continue to introduce new and expanded products for our agents and customers, we are seeing increased take-up rates for these products with our current customer base as well as helping us win new business.

New commercial lines business for the quarter breaks down as follows: small account and new business was up 24% to $20.3 million; middle market and large account business was up 61% to $49.6 million.

As other carriers are raising rates across the board regardless of account quality, we are getting opportunities at agent controlled business due to the excellent relationships we have with our agency partners. This allows us to utilize our underwriting tools and sophisticated pricing capabilities to put new business on the books at actuarially sound rates.

As a result, our hit ratios have improved, and the number of new policy issued is up year-on-year, although still below 2010 levels. We are exercising underwriting in pricing discipline and growing in a controlled fashion.

Personal lines premium grew 7% in the quarter, while new business was down 6%. Filed rate increases that were affective for the quarter averaged 5.9%, while retention improved 1 point from a year ago to 87%.

We achieved profitability in the quarter and feel good about the progress we have made in changing the mix of business and maximizing rates. New business was down in the quarter due to our underwriting initiatives which are designed to drive greater profitability.

In 2012, we will continue to push rate in both the auto and homeowner books, and are on track to achieve 55 rate increases with a potential for an impact of $23 million in additional premium on our in-force book.

We are pleased with the growth of our new E&S contract binding authority platform, which resulted in $26 million in additional premium written in the first quarter. I am especially pleased with how smoothly both operations have been incorporated into our operations.

Effective April 1, we began writing the Alterra renewal rates book of business on our own paper through Mesa Underwriters Specialty Insurance Company or MUSIC. We are looking forward to renewing a significant portion of the $120 million combined book, as we deepen our partnerships with our new wholesales agency force and take advantage of the $300 million to $400 million in premium potential from our current retail agency base.

Now I will turn the call over to Greg.

Gregory Edward Murphy
Chairman & CEO

Overall we are pleased with our first quarter performance and the progress we continue to drive throughout the organization. There is clear evidence of a more rational commercial lines pricing, terms and conditions by almost all competitors who are now seeking increases on renewal business, with some being significant.

In certain cases they are still willing to reduce prices to retain business, but in many they are holding the line. Most importantly, the conditions in the market place are aligned for opportunity for Selective.

Our nimbleness combined with pricing sophistication and outstanding agency relationships provides us with high quality growth and underwriting opportunities. We benefit from other carriers who are increasing commercial lines price on and across the board or socialized basis, mainly because they are underestimating their price requirements for the worst end of the market place and overstating for the best. With our sophisticated underwriting tools, we can identify and write the best business.

We are paying close attention as to who the incumbent carrier is, as one needs to be cautious about the quality of the commercial lines that is currently being shopped. Less sophisticated companies will ultimately become a market for adverse selection, as there is a significant amount of underperforming business being pushed in to the market place.

For the quarter, commercial lines new business was up 48% to 70 million, over a weak new business production in the first quarter of 2011. Another advantage is our ability to obtain rate which is bolstered by most competitors taking it across the board, non-negotiable approach to rate increases.

Commercial lines rates continue to elevate, which makes us much less of our outlier in the industry, as we've been driving rate for 3 years. Our underwriters continue to work diligently to focus on rates on the lines, segments and accounts that are most deserving, while working with our agents to obtain the best most profitable accounts.

When we drive rates in excess of 10% on the lowest quality business, renewal retention drops to between 60% and 65%, whereas higher quality business that is priced throughout 3% to 5% retained at a solid 83% to 86% level.

Again for the quarter, our commercial lines retention was up 3 points to 83%. Our tools enable underwriters to see the impact on their book of business of the decisions they make on price and retention on a day-to-day basis and to look ahead and plan a course of action by agent, segment and territory.

We talk to our underwriters often to test the market, push for more rate increases where necessary and appropriate and to find a breaking point between price and retention. I cannot say enough about our outstanding agency relationships.

When we were driving rate back in 2009, agents closely managed our renewal books and retention remained stable. From 2009 to 2011, we did see a slowdown in new business, but there was not a lot of high quality new business in the market place.

We feel this is the sweet spot in the market place for us, where we can achieve 5% to 7% overall rate while still maintaining strong retention and experiencing new business growth. A significant portion of premium growth $26 million or several points in the quarter, which generated from our newly acquired E&S operation.

To date, we've spent a significant amount of time on the transition from a technology and processing standpoint. Now we could focus our efforts on premium growth, particularly with our own agents, as business is migrating in to the E&S market and pricing is starting to firm.

We continue to proactively manage our cost of goods sold through a number of initiatives. We have implemented predictive modeling for both claims fraud analytics and recoveries, which help us avoid fraudulent payments and to identify payments that we may be able to recover due to fraud. These are powerful tools that are part of our overall projected 3 point loss reduction in claims by the end of 2013.

We expect ongoing positive renewal price increases and new business growth over the remaining 3 quarters in the year, based on our ability to strategically utilize our sophisticated underwriting tools and strong agency relationships.

In the first quarter there were positive variance in underwriting and some negative variances in investment. But overall earnings came in as we expected. After only one quarter, we are maintaining our 2012 expectations as follows.

A statutory combined ratio of 101.5; a GAAP combined ratio of 0102.5, which do not include any additional reserve development assumptions either favorable or unfavorable, catastrophe losses of 2.5 points, about a point higher than the historical average to reflect the more severe weather patterns. Investment income is expected to be approximately flat with 2011 levels, and weighted average shares outstanding of 55.6 million.
Now I will turn the call over to the operator for your questions.

Question and Answer

Operator

[Operator Instruction] Our first question comes from Ray Iardella from Macquarie.

Raymond Iardella
Macquarie Research

Couple of quick questions, first maybe John or Greg. Your commentary regarding pricing and sort of your expectations, pricing would continue the momentum that you've seen over the past couple of months. Do you have any early indications of what you've seen in April yet?

John Joseph Marchioni
President & COO

This is John. We don't have an indication that we are comfortable sharing relative to April. We certainly see internally what's happening with each of our renewal inventories. But if you look at the trend in the first quarter and how pure price build from month-to-month during the course of the quarter, and then looked at the corresponding retention for each of those time periods. It's those 2 metrics that we look at and say that we feel comfortable about where the market is and why we feel good about the trajectory we are on. Again, there is always things that could change and drive the market place in a different direction going forward, but everything we are seeing points to a continued firming and a strengthening of the market over the course of 2012.

Gregory Edward Murphy
Chairman & CEO

If I could answer that John, and obviously we've got a great view, it lends in to what's happening, and the reason why we are uncomfortable getting a number for April is the fact that some of the corporate house that get negotiated go right to the end of the wire. So that creates a lot of push and pull in what happens to rate. But to give you a sense of our capability, our folks know exactly what's happening and where they are. It's just the fact that some of these tougher negotiations go right to the end.

Raymond Iardella
Macquarie Research

Understood. And maybe talk a little bit about the E&S business. The rate that you are getting on that book, is that basically in line with the rest of the commercial book or is that better or worse? Any color would be helpful.

John Joseph Marchioni
President & COO

This is John again. We certainly expect to see price firming going forward in the E&S market. We haven't reported our E&S results separately. We certainly monitor that business and we've been very focused on the transition, and again recall that this is a renewal rates transaction. So the historical performance is not necessarily something that we monitor closely, but we certainly look at pricing relative to base rate levels and make sure those are moving in the right directions. So I would say that we expect them to move in tandem, although it won't be perfectly tied to what we are seeing in the standard commercial lines market. But we are starting to see business move from the standard market in to the E&S market and certainly we are seeing more and more talk of E&S companies putting higher rate levels out on the street. They tend to stick and we would expect to see the same dynamics in that market place as well.

Raymond Iardella
Macquarie Research

It seems like you guys are first focused based on the commentary on sort of getting the acquisition in place and now it seems like you are turning your focus towards sort of your existing distribution. Is that not sort of baked in to the first quarter, the growth that you've seen on the E&S side or is that something we can see ramp up overtime.

John Joseph Marchioni
President & COO

That's something that you would see ramp up overtime. We certainly have been focused on getting the transition completed, getting the technology up and running. And just in terms of our growth outlook going forward for that particular segment. There is clearly growth opportunity that we expect through deepening relationships with the wholesalers that we have with both MUSIC and Stonecreek, across all 50 states. And then we think over the next several quarters you will start to see some benefit coming through from our retail agency partners as they start to develop deeper relationships with these wholesalers and feed business to us through that means. So you haven't seen that really drive the production to this point, but we fully expect that to happen in the future quarters.

Gregory Edward Murphy
Chairman & CEO

I am only going to add to that. I think you are right, that's been the focus even on the pricing and monitoring tools. Those are some of the things that we are currently making sure we have baked in to the process. So I think you said it well, that this first quarter was the foundational quarter, making sure we had a lot of the processes and other things done, and then as John mentioned, more towards the third quarter timeframe we've got some incentives we'll be adding to our own agents for production. So I look at this as 3-pronged growth effort. One is the rate initiative that you indicated that is starting to ramp up a little bit more in the E&S sector. The second is the normal migration in a hardening market between business moving fungibly [ph] from the primary market in to the E&S space, and then third will be our own agents in terms of -- they have our incentive to sit there and consolidate more of their business with our identified wholesalers.

John Joseph Marchioni
President & COO

But that doesn't mean there's guarantee that we are going to get that business, but it's a good opportunity for us for growth.

Raymond Iardella
Macquarie Research

May be for Dale on the portfolio side. Can you talk about, one, the dividend income in the quarter and then secondly what's sort of the level of returns you guys expect longer term on the alternative investments and how that relates to the kinds in 2012.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Sure. The dividends are up because remember last year we put in place a high dividend yield equity strategy. So that was put in place over the course of the year. So that's why you have substantially more dividends in the first quarter of 2012 versus 2011. Basically as we looked out at the market place and the bond yields that were available, it was clear that basically going to a high dividend yield strategy was advantageous given the tax advantage nature of them and just the relative yield compared to the bond portfolio, but that's why those are up. As far as the alternative investments go, that ends up being a very lumpy type of investment. If you look at our alternatives for last year, they delivered about $20 million over the course of the year, but $11 million in the first quarter. So, there is no guarantee as to which quarter things will come in or how it will come in, but we feel very comfortable with how they are performing and what we have there. So that's the one thing that we always counsel our analysts that it's the most difficult piece of the puzzle to prognosticate what level of income is going to be generated on a quarter-to-quarter basis.

Raymond Iardella

Macquarie Research

And then the dividend income relative to 4Q, was there anything particular in the fourth quarter of 2011, I guess it was 2.2 million. Were there any one time special dividend or --

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Not one-time special but traditionally fourth quarter tends to be a heavier dividend quarter for equities, so it’s just a natural boost in that regard.

Operator

Our next question or comment comes from Bob Farnam from KBW.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Back to the E&S book, just wondering how much of that book are you renewing or is that going according to the plan.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

Generally speaking the E&S space tends to have a much lower retention level because obviously keep in mind it’s little bit like the non-standard auto business in some way. So people when they are in the E&S market place strive to get in to the primary space. So generally speaking retention there is about 60% historically. We are seeing retention that are as expected, so we feel pretty good about the way we are generating business there.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

I figure it’s pretty early and I understand the businesses higher expense ratio, but I am curious if the loss ratio has been performing as expected. But again I understand that may be very early for that.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

It’s basically too early to start talking about numbers within the E&S space with regards to that. All I can say basically is that it’s performing as we expect it to at this stage of the game.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

So, how are the rate increases overall relative to the loss costs trend. What impact are we going to have in the larger issue going forward?

Gregory Edward Murphy
Chairman & CEO

I think I could tell you that the loss trends for us are in the below 3%, right in that neighborhood, and that continues to hold pretty firm. And then rate level overall, we are earning at about that rate level or above that rate level or slightly higher and then we are writing at as John mentioned we are at 5.1 for the quarter. When you look at what we actually did in the month of March, it was 6. I think when you do comparables for the street, I would compare our numbers and retention most closely to the things that I see publicly which would really be traveler select program where their rate level was, when you interpolate that graph, somewhere in the 5.5 to 6 range with a 75% retention. I think that’s probably the most straight up comp out there in the market place. So I would say that we're overall pleased where we are relative to the trends. We would like to get a little more and as John mentioned, we expect to see that elevate as we move through the rest of the year.

Robert Edward Farnam
Keefe, Bruyette, & Woods, Inc., Research Division

Last question from me, was there any reserve development in personal lines this quarter.

John Joseph Marchioni
President & COO

There was a favorable development of $1 million in homeowners.

Operator

Our next question or comment comes from Scott Hanold from RBC Capital Markets.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Just wondered if you talked about -- the retentions obviously were up pretty nicely and a lot of your competitors are reporting a decline in retention. So just curious if you could talk about what you are hearing from your customers and how are you able to drive this? And is there any particular areas where you feel like you are not getting enough rate and you are pulling back? Doesn't really seem like that too much, but just wondering if you could touch on the retention improvement?

John Joseph Marchioni
President & COO

I will take that question. We take a lot of pride and you've heard this in the prepared comments. We take a lot of pride in driving rate at a very granular basis. So when you look at how we segment our business, there's a whole host of ways we do that, and we target business based on certain risk characteristics, certain model outputs, scores, line of business strategy, segment strategies. If you were to look at what we would consider to be our highest target rate segments, you do see much lower retentions in that area. So that's part of it. I would say the granular pricing strategy that we've deployed since 2009 is a big driver in that. The other big driver in that and you've heard a little bit of this in the prepared comments as well, is relationships, and we know a lot of companies talk about relationships out there. But if you look at our ability to manage retention with price ahead of the market place over the last 3 years, that's because we go out with a granular approach, but then we are able have very specific conversations with our agency partners to understand where the competition is on certain accounts, but also we have a good sense as to what real walk-away pricing is on the tougher accounts. And the challenge for many companies is, when you think about performance going forward, you can't just look at past loss ratios on an account level and determine what's good business and bad business. You need to put all these tools together to try to project experience going forward. And that's where the art is in the work that we are talking about here. So I would put it down to great tools and a granular pricing approach, along with great agency partnerships where the dialog is constant ongoing at a portfolio level.

Gregory Edward Murphy
Chairman & CEO

As the market continues to elevate in rate, I would say that in our -- I will call it in the middle quality business, there probably is opportunity to drive more rate but that's more market centric, because you don't want to be too far and out and that's the balance that John is really talking about. On the lower end we are putting some big rate increases and just not renewing, so you don't see that hold and stick in that rate level but it is in our non-renewal, which is in our profit improvement plan. But it's that middle market [indiscernible] how you push that, where the market is and that's where you want to make sure you retain that business, which you also want to make sure you are maximizing your rate and that's really what we are talking about.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

Obviously the new business was up pretty nicely and you parched that up between small and middle. Just wondering if you could break that out a little bit more, just kind of by line or by class, and also we talked about pricing a little bit too, but what are you seeing as far as new business pricing and obviously you are probably not getting the same sort of rate. But just wondering if you could talk about the differential between new retention pricing, new business pricing and how you are looking at that in your business?

John Joseph Marchioni
President & COO

There's a few different piece of that question. Let me just start with the type of business first. I would say from a line of business perspective it's pretty reflective of our in-force inventory. You don't really see major swings in terms of mix by line of business. Clearly we continue to see some stronger growth in some of our less mature territories. So geographically a little bit more of a mix in that direction. And then from a segment basis, we continue to see a lot more growth outside of contractors. So that's been a concerted effort to continue to diversify and contractors has been a great segment for us overtime. It's casualty driven, so it certainly helps in terms of managing cat exposure, and we continue to be a strong player there. But we've also made a concerted effort to diversify in to non-contracting segments and you've really seen that bear fruit over the last couple of years. On the pricing side as we've talked about on prior quarters, it's much more difficult to measure pure price on the new business side, because you don't have the same basket of policies to evaluate from one time period to the next. However, we have different measures in place that our underwriters use to measure both quality and pricing, because the big gap when you think about trying to evaluate that is, you could look at pricing from one period to another, but if you don't have the same basket of policies, you have to find a way to introduce change in quality. And if you believe your quality of business is improving which we certainly do, you would assume to be a little bit more downward pressure on pricing as a result of that. So you've got to try to incorporate that into the analysis. So pricing, generally our new business is under more pressure than renewal books and that's just the dynamic of the market place that we are in. So our risk selection quality is critically important. So we look at it, we don't report it because it's not an exact number that you can calculate like you can do on your renewal book, but I could tell you that when you look at where the production is coming from, the quality of accounts and the pricing relative to unit of exposure. We feel good about the business that we've been writing in the new business arena. The other point to make there is on a year-to-year basis it is clearly up. It's not nearly where it was just a few years ago. So, at $70 million and if you extrapolate that out over a year and think about what that would look like, that is not still at the level. We mentioned 2010 in the prepared comment, as a comparison. These are still not very big new business levels compared to what we've done in prior years.

Scott Michael Hanold
RBC Capital Markets, LLC, Research Division

My final questions is if you could touch on the reserve releases of $3 million. Was there any area in commercial you obviously said personalized, you had a little bit of favor there. Was there any areas commercial lines where you had negative development. Just if you could touch on any change in loss costs trends, frequency or severity anywhere.

John Joseph Marchioni
President & COO

We did not have any adverse development within any overall line of business. We had a favorable development of about $1 million in the BOP line which was included in some of our prepared comments and also a $1 million in the commercial auto line, and then the $1 million that we talked about before in the homeowners. So, other than that obviously you have some accident years to develop adversely, some have developed favorably, but on an overall basis it was all favorable development, but again very modest to $3 million.

Operator

[Operator Instruction]. Our next question or comment comes from Alison Jacobowitz from Merrill Lynch.

Alison Marnie Jacobowitz

BofA Merrill Lynch, Research Division

Two questions, I was wondering on the non-cat weather, I didn't hear at all and if I missed it I am sorry. But was it better than expected given the mild winter and then if you could talk just a little more about alternative investment income. I know it doesn't exactly move with the S&P but if you could just talk about may be some of the asset classes and what maybe held back the performance a little bit this quarter relative to the market.

John Joseph Marchioni
President & COO

On the property -- this is John -- on the property side, you see the cat numbers, but we also had a solid quarter from a non-cat property standpoint in both personal lines and commercial property.

Dale Allen Thatcher
Former Executive VP, Treasurer & CFO

As far as the alternative investments, where we are, there is real estate, there is mezzanine financing, there is distressed debt, there is private equity, there is secondary private equity and there is also energy. I wouldn't say that there is anything particularly that held it back. Obviously the dollars weren't nearly as strong as we had in the first quarter of last year. You just didn't have as much M&A activity during the quarter. And if you look at our alternative portfolio, we have not invested new money into the portfolio in a few years, therefore most of these are more in the harvesting stage of their lifecycle, therefore if you can't reduce M&A activity, you are going to see less income in those kind of quarters.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

One other question if I can ask. In the personal line to the price increases, I don't know if you can give it or generally talk about it. But the homeowners versus the auto rate increases, if you could put a number around what you are seeing there or what you are doing there.

John Joseph Marchioni
President & COO

This is John. In personal line, the total was 5.9 and that broke down to 5.5 on auto and 7% on home.

Operator

Our next question or comment comes from Ray Iardella from Macquarie.

Raymond Iardella
Macquarie Research

Just want to touch on some of the claims initiatives you guys are working on, and I guess certainly you are going to get some improvement from the rate side, but is there anything you guys have been learning from the claims initiative and I believe the thought process is 3 points of improvement to the loss ratio by 2013.

John Joseph Marchioni
President & COO

Yes, this is John. I could certainly start with that and Greg could add if need be. There is a really a series of initiatives across all major lines of business that are designed to drive that improvement. We've actually seen some of it manifest itself already and continue to see that in to 2012. But we are just going to look at the major lines and you start with workers comp. There is clearly a lot of effort around improving medical management and that's a big driver of loss experience on the workers comp side. So improved networks, improved case management capabilities. But then the other change that we've implement and this applies to both comps and liability is a higher degree of specialization. So if you look at comp, the ability to have your claims adjustors well trained in a specific area, be it your fast track short term medical claims, your lost time claims versus your longer term resolution type work. And the key there would be not just having people who are well trained in a specific area of claims handling, but then making sure your triage process gets the claim for the right person as early in the claim life cycle as possible. So I think that's been a big part of what we've done on the comp side. You could bind that with the medical management improvements, and then the same comps that's on the liability side, where we've created a complex claims unit to make sure that we are getting those more complex liability claims, again into the hands of the well schooled and well trained complex claim handler as early in the process as possible. So there's other initiatives around making sure that you are managing your property losses and your contents of repricing perspective that we've done. So a series of other initiative to drive down lost cost. But I would say those in the liability and comp area, we would expect to be the big drivers, and we think we are very well on track to that 3 points by '13 that Greg alluded to in the prepared comments.

Gregory Edward Murphy
Chairman & CEO

I would add to that Ray. I touched on a little bit, some of the analytics that we are doing has been very insightful relative fraud, relative to recovery and now even on the fraud side, you are looking for tendencies in your own inventory, but now we are also starting to use that data and look at claims that are being presented to us on the liability side, where we are getting claims information later on in the process. This is again providing that supplemental knowledge base that feeds on some of these types of cases, and then John touched on -- even on the expense side, how we are managing our panel stat council. The things that we are doing on recovery relative to better managing that cost structure. So I want to say it's holistic and we feel very good about our positioning in the market place relative to the initiatives.

Operator

[Operator Instruction] And we are currently showing no further questions or comments at this time.

Gregory Edward Murphy
Chairman & CEO

Thank you for participating in the call. And I would strongly encourage you to attend our upcoming investor day on May 14, where you will have an opportunity to see for your selves the bench strength of our management team and spend time with 4 of our superior independent agents. For details on this event please call Jennifer. Thank you very much.

Operator
That concludes today's conference call. Thank you for your participation and you may disconnect at this time.