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Earnings Call

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Call Participants

EXECUTIVES

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Senior VP & Chief Accounting Officer and Interim CFO

Brad Bryant Wilson
Senior VP of Investor Relations & Treasurer

John Joseph Marchioni
CEO, President & Chairman

ANALYSTS

Grace Helen Carter
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Presentation

Operator

Good day, and thank you for standing by. Welcome to Selective's Second Quarter 2024 Earnings Conference Call. [Operator Instructions]. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Brad Wilson, Senior Vice President, Investor Relations and Treasurer. Please go ahead.

Brad Bryant Wilson
Senior VP of Investor Relations & Treasurer

Good morning. Thank you for joining Selective's Second Quarter 2024 Earnings Conference call on short notice. Yesterday, we posted our earnings press release, financial supplement and investor presentation on the Investors section of our website selective.com. The investor presentation includes a new exhibit highlighting our historical reserve development and relevant comparisons. A replay of the webcast will be posted there shortly after this call.

Today, we will discuss our financial performance, market conditions and expectations for the rest of 2024. John Marchioni, our Chairman of the Board, President and Chief Executive Officer; and Tony Harnett, our Senior Vice President, Chief Accounting Officer and Interim Chief Financial Officer, will make remarks before we move to our question-and-answer session.

Our commentary today references non-GAAP measures we and the investment community use to make it easier to evaluate our insurance business. These non-GAAP measures include operating income, operating return on common equity and adjusted book value per common share. We include GAAP reconciliations to any referenced non-GAAP financial measures in the financial supplement posted on our website. We will also make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995, not guarantees of future performance. These statements are subject to risks and uncertainties that we disclose in our annual, quarterly, and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements.

With those introductory remarks, I'll now turn the call to John.

John Joseph Marchioni
CEO, President & Chairman

Thanks, Brad, and good morning. This was a challenging quarter. We hold ourselves to a high standard, exhibited by the profitability and growth we strive for and have consistently achieved over the long term. Our consistent and disciplined approach to underwriting, pricing and reserving is the foundation underlying our strong track record. That foundation remains as strong as ever. However, the industry-wide social inflationary trends have continued to put upward pressure on average severities in the general liability line of business.

Catastrophe losses and our reserve strengthening drove the 116.1% combined ratio in the quarter. As a result, we had an operating loss of $1.10 per diluted common share and an operating ROE of negative 9.6%. This brought our year-to-date operating ROE to 1.1%. Our revised full year guidance implies an ROE in the upper single-digit range, below our 12% target.

Although earnings this quarter were challenged, our capital position remains strong, and our underlying combined ratio of 91.4%, which includes an updated run rate for general liability, positions us well moving forward. We maintain our disciplined focus and execution in the areas of risk selection, pricing, and claims management in the face of this challenging and dynamic loss trend environment. This has positioned us as an industry leader.

With our run rate profitability, we are confident in our ability to quickly reestablish our earnings profile that consistently meets or exceeds our 12% operating ROE target. We've been very transparent about our assumed loss trend, which we have consistently increased over the past several years. For general liability, we increased our assumed loss trend to 9% for 2024 from 4% in 2020. While reported frequencies in the more recent accident years continue to emerge at or better than our expectations, we continue to see average severities exceed our elevated expectations. The most recent accident years are still relatively immature, but rather than hope these severity trends flatten as those years mature, we believe it was prudent to react to the early severity emergence we are experiencing.

While we reacted to the actual emergence, our action this quarter also contemplated some potential continuation of these trends. Specifically, we recorded $176 million or 16.3 points of net unfavorable prior year casualty development within our Commercial Lines segment. $166 million was in the general liability line of business. 90% of this quarter's general liability action relates to accident years 2020 through 2023, similar to the action we took in the first quarter. Our year-end 2023 actions were mostly associated with accident years 2020 and prior.

As older accident years continue to mature, we gain greater confidence in our estimates, and further development has been modest in 2019 and prior. This increases our confidence in the adjustments we are now making to accident years 2020 and subsequent, which puts us in a stronger overall reserve position.

Given the consistency in our underwriting appetite and risk profile over time, our corrective actions are primarily focused on achieving additional rate with a continued emphasis on prudent underwriting.

Taking a step back, our full year 2023 standard Commercial Lines combined ratio was 94.9%, in line with our 95% target. Excluding the impact of prior year casualty reserve development, our 2024 year-to-date Standard Commercial Lines combined ratio is 96.4%. Consequently, we must get additional rate to achieve our 95% target.

In the second quarter, general liability renewal pure price increased to 7.6%. This is 110 basis points higher than the first quarter 6.5% and 220 basis points above full year 2023's 5.4%. We expect that general liability pricing will further increase in the second half of the year.

We entered 2024 with an overall expected loss trend of 7% with casualty at 8% and property at 4%. In the second quarter, Standard Commercial Lines renewal pure price was 7.9%, up 30 basis points from the first quarter's 7.6% and 120 basis points higher than a year ago. Excluding workers' compensation, commercial lines pricing increased 9.1%. Exposure growth added 4.3 points, contributing to a total renewal premium change of 12.6%. In addition, commercial property at 12.1% and commercial auto at 10.8%, continue to generate the highest pure rate increases within our Standard Commercial Lines segment.

Let me now shift to our other segments. Excess and Surplus continued its strong performance with excellent top line growth and a 94.6% combined ratio despite elevated catastrophe losses. In total, E&S net premiums written increased 39% in the quarter, with strong contributions from our contract binding and brokerage operations.

The E&S market opportunity continues to be robust, with elevated submissions within our existing appetite at attractive pricing. Our E&S technology investments are paying dividends. We modernized our rate, quote, and buying platform, which has improved operational efficiency. We are focused on investments to build scale and continue taking advantage of attractive market conditions.

Personal Lines net premiums written increased 6% in the quarter due to strong renewal pure pricing of 20.7% and larger average policy size, partially offset by declining new business and lower retentions. Retention in the quarter was 78%, down 10 points from the second quarter of 2023 and in line with our expectations given our actions to shift to the mass-affluent market. We are taking a balanced approach in Personal Lines, promoting growth in areas where rates are adequate and limiting new business in states needing additional rate approvals. Overall, we are making progress towards profitability in this segment as the quarter's underlying combined ratio improved by 3.4 points compared to the second quarter of 2023.

Nonetheless, we have more work to do, and remain highly focused on strengthening our rate plans and achieving rate adequacy.

Across our 3 insurance segments, we will continue to balance growth and profitability with a goal of consistently achieving a 95% combined ratio. Our pricing discipline, strong relationships with our distribution partners, and sophisticated analytical tools have enabled us to effectively balance rate and retention over the long term. We see the same opportunity going forward.

With that, I'll now turn the call to Tony to discuss our quarterly financial results in more detail.

Anthony David Harnett
Senior VP & Chief Accounting Officer and Interim CFO

Thank you, John, and good morning, everyone. We reported a fully diluted net loss of $1.08 per share in the second quarter and a non-GAAP operating loss of $1.10 per share. This brings our year-to-date return on equity and operating return on equity to 1.1%. Our GAAP combined ratio was 116.1% in the quarter, including 16.3 points of unfavorable prior year casualty reserve development and 8.4 points of catastrophe losses.

Catastrophes were widespread, with 28 events impacting results this quarter. The underlying combined ratio deteriorated by 1.4 points compared to a year ago, primarily due to a 0.5 point increase in non-cat property losses and reserve actions in the current accident year. Adverse prior year casualty reserve development in the quarter totaled $176 million, with $166 million in general liability and $10 million in commercial auto. As John described, the reserve strengthening was severity-driven and concentrated in the more recent accident years as we continue to experience elevated loss emergence in the quarter. We attribute this mainly to the continued impacts of social inflation.

Frequency continues to be generally in line with our expectations. The general liability development is primarily related to the 2020 through 2023 accident years. While these more recent accident years are still relatively immature, and paid losses as a percent of expected ultimate losses are relatively low, our response is prudent given the trends and elevated uncertainty. Consequently, we also took action in the current accident year impacting results in the quarter by $28 million or approximately 2.6 points on the overall combined ratio.

Notably, the general liability reserving action we took in the fourth quarter last year, predominantly on older accident years, held up reasonably well over the last 6 months. As these years mature, we are gaining increased confidence in our estimates. In the current quarter, the reserve adjustment was 8% of our net reserves for general liability and 4% of our overall net reserves. This represented an average of about 4 points on the general liability combined ratio across each of the impacted accident years.

Our expense ratio in the second quarter was better than expected and improved by 1.1 points compared to a year ago. The expense ratio improvement was primarily due to reductions in employee and aging compensation accruals that reflect our updated view of 2024 underwriting performance. We now expect the expense ratio to finish the year about 1 point better than full year 2023.

After-tax net investment income was $86 million in the second quarter, up 11% from last year and contributed 12.5 points of ROE. Alternative investments, which report on a 1-quarter lag generated $8.3 million of after-tax income in the quarter, down slightly from $9 million a year ago. In the second quarter, we invested over $500 million of new money at an average pretax yield of 6.4%. The fixed income portfolio's overall pretax book yield increased modestly in the quarter, ending at approximately 4.8%. The meaningfully higher book yield embedded in our portfolio should provide a durable source of income as we move forward.

Overall, the portfolio remains conservatively positioned. The higher interest rate environment allows us to deploy capital in investment-grade securities at attractive levels, raising the bar for investing in risk assets. Fixed income and short-term investments represented 92% of the portfolio on June 30 with an average credit quality of AA- and a duration of 3.9 years.

Turning to reinsurance. We successfully completed the renewals of our July 1, 2024, property and casualty excess of loss treaties covering Standard Commercial Lines, Standard Personal Lines, and E&S. Both treaties have substantially the same structure as the expiring treaties. Our casualty excess of loss treaty provides $88 million of protection above a $2 million retention for all our casualty business, in line with the expiring treaty. Given the conditions in the casualty market, we retained a co-participation of 17.5% on the first layer of the treaty, which provides $3 million of coverage in excess of a $2 million retention. The remaining layers of the treaty were fully placed and consistent with the expiring program. For our property excess of loss treaty, we maintain the retention on the first layer of $5 million. All attachment points and limits remain the same with $65 million of coverage.

Our capital position remains strong with GAAP equity of $2.9 billion and statutory surplus of $2.7 billion. Book value and adjusted book value per share decreased by 1% from year-end. At the end of the quarter, the debt-to-capital ratio was 14.8%, well below our internal threshold of 25%. This ratio, together with our operating cash flows, provides us with the financial flexibility to support organic growth and execute our strategic initiatives. We did not repurchase any shares during the quarter and had $84.2 million remaining under our share repurchase authorization.

Our results in the quarter are an earnings event, not a capital event. We are confident in our ongoing strategies and ability to execute.

For 2024, we now expect our GAAP combined ratio to be 101.5%, up from our previous guidance of 96.5%. The 5-point increase reflects the full year impact of the adverse prior year casualty reserve development, current accident year bookings and general liability, and a 0.5 point increase in our catastrophe loss assumption, which is now 5.5 points. Consistent with our typical process, we assume no additional prior year casualty reserve development. As previously mentioned, these increases are partially offset by a lower expense ratio. Even with these updates, the underlying combined ratio of 91% highlights our strong forward earnings potential.

Our estimate for $360 million of after-tax net investment income, including $32 million from alternative investments, remains unchanged. Our guidance includes an overall effective tax rate of 21%, with a 20.5% effective tax rate on investments and 21% on all other items.

Fully diluted weighted average shares are estimated to be 61.5 million. This does not reflect any assumptions for share repurchases we may make under our existing authorization.

Now I'll turn the call back to John.

John Joseph Marchioni
CEO, President & Chairman

Thanks, Tony. Our guidance implies an operating ROE in the high single-digits for the full year 2024 despite our reserving actions in the first and second quarters. With our underlying combined ratio guidance of 91% and 5.5 point assumption for catastrophe losses, the gap to reach our 95% combined ratio target is manageable. Importantly, the 91% underlying combined ratio includes approximately 1.5 points of strengthening in the current accident year.

We have strong momentum in our E&S business and profit improvement plans in Personal Lines. In Standard Commercial Lines, our flagship segment, we have the tools and organizational muscle to effectively manage rate and retention, apply disciplined and prudent underwriting, and execute our strategy. Our actions position us well moving forward despite the uncertainty that exists in the external environment.
I'll now ask the operator to open our question-and-answer session.

Question and Answer

Operator

[Operator Instructions]. Our first question comes from the line of Mike Phillips from Oppenheimer.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

John, first question is on the commercial renewal pricing and retention stuff there. You're continuing to kind of move that up, good news, but it sort of feels like that's a bit different than what we're seeing from other commercial players. I guess, I want to see if you agree with that.

And then maybe just your confidence on the ability to continue to do so and impacts on retention and kind of where that stands. And if we look out over the next couple of quarters, do you think that GL number, you mentioned 7.6% or the commercial 7.9%, continues to move up?

John Joseph Marchioni
CEO, President & Chairman

Yes. Thank you, Mike. So I think we feel pretty good about the direction of Commercial Lines pricing. And honestly, while we might be a little bit ahead of the market, there's enough commentary out there and has been enough commentary out there about the direction of loss trends and therefore, the need, particularly on the casualty side and GL more specifically for pricing to increase.

And I think if you were to look back over the last couple of quarters against our public peer set and their commentary in their earnings calls, while they make statements and have made statements about where they think pricing is relative to loss trends for casualty, they also point to the need for pricing to go higher. So I think these trends are being recognized. I think they'll continue to be recognized. And while we might be an early mover with regard to the recent accident years and then moving on to update our current accident year, which we think is appropriate and prudent in light of these severity trends that continue to emerge, I think we will -- we do expect to see the industry also move. And therefore, I wouldn't expect a significant retention impact.

Now that said, and you've seen this in our history, when we have conviction on pricing and where we think pricing needs to be, we respond to that conviction. And if there is an impact to retention, that's a trade-off we think is appropriate in the current environment.

Michael Wayne Phillips
Oppenheimer & Co. Inc., Research Division

Okay, John. I guess on the reserve issues, I guess maybe a 2-part question here. You moved up the 20 -- the current accident year a bit. But have you seen -- part 1 would be, have you seen much of what you described as 2020 to 2023, have you seen much of that already for the 2024 accident year? And then what do you say to those that say, this is -- this recent accident year issues are a selective issue. Their book of business is different. This is not going to be as widespread as maybe what John thinks.

John Joseph Marchioni
CEO, President & Chairman

Yes. So a lot there in the question, Mike, and I appreciate it. The first thing is with regard to the '24 accident year, it's extremely early. But if you react to the more recent years and recognize higher severity emergence in the more recent years, unless you want to back down in your forward trend assumption, it's prudent to adjust the current year. So I would say the current year adjustment is almost entirely driven by the fact that we've moved our expected loss ratios for the '22 and '23 years higher and kept our severity trend assumption that we started the year with in place, which effectively pushes up our view of the current year. So I think that's the important point.

With regard to whether this is a selective specific issue or not, I think we feel pretty good based on the -- and we reiterated this last quarter, our portfolio has been extremely stable from a mix of business perspective, industry verticals, hazard mix limits profile. And when you look at our history, there's nothing to suggest that the book has changed in a manner that would present the meaningfully different frequency and severity profile.

And I know some have called out certain jurisdictions and states as being more exposed. And honestly, that list of states that have been bouncing around out there came out of my response to a question last quarter, and those were states that have been in our footprint and continue to be in our footprint and have historically been in our results.

What I didn't cite was the big states that are more challenging litigation environments that are not in our footprint. And states like California, Texas and Florida that are driving the vast majority of nuclear verdicts and therefore, you would expect that if you're driving the nuclear verdicts, those same courts are driving social inflationary trends and higher severity trends generally. So unfortunately, that single thread got picked up as opposed to the broader commentary around how these trends are fairly widespread.

Listen, I think the fact that our book is a little bit heavier in GL than some of our peers, will drive some of the impact. But generally speaking, if you write GL, other liability occurrence, in particular, in the liability portion of CMP for some companies, I think these trends are there, and I think they will manifest themselves in the coming years. And our philosophy around reacting quickly when we see emerging potential adverse trends, that's what we're doing here. And in addition to the more recent accident years, we're taking action in the current year, which we think is the prudent approach, but our strong underlying combined ratio starting point and our approach to pricing relative to our updated indications, we think, puts us in a good position to continue to be that steady, strong performer on a go-forward basis.

Operator

Our next question comes from the line of Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe sticking with some of the reserving actions. Maybe you can reflect on the 9% assumption, I believe, on loss trends. Is that for GL? And then if you think back, and I'm not sure how long of a data thread you have, where -- how does the 9% compare to what you've seen? I know, John, you've been obviously doing in the industry for decades, but is this a multi-standard deviation assumption? Or has the industry seen this before, decades ago, trying to get a sense of how severe your assumptions are relative to kind of the historical data that you have?

John Joseph Marchioni
CEO, President & Chairman

Yes, sure. So let me try to take that in pieces. So the 9% we referenced is for GL. That was in the overall casualty of 8% and then 8.5% we had talked about, excluding workers' comp. So the 9% is GL specific. And as we said in the beginning of the year, that didn't assume any frequency change. So you could assume then that, that 9% is entire severity driven.

But now if you look back, because obviously, historical loss trends -- actual historical loss trends influence how you think about forward loss trends. And if you were to look back, and I think we've been as transparent as anybody in terms of our expected loss trends, and we've been doing that for several years, if you look back over the last 4 or 5 accident year, so let's just focus on the period that is in everybody's focus right now, which is that '20 to '24 period. Our expected loss trend over that time was about 4% in 2020. It's now at 9%. But if you look on average, from '20 through '23, our average expected loss trends was about 5% over that time frame.

Our current evaluation of those years, and I'm careful not to call it loss trend, because technically, it's not going to be, if you just think about the -- what we're seeing in terms of average change in frequency and severity, which gives your average loss cost change, what we've seen over that time period on an updated basis would say rather than the 5% we assumed on average, it's closer to 6.5%. And again, I think it's important to understand the pieces there, and you heard us refer to frequencies, that 6.5% is made up of frequency, which has been running better by about 4%, give or take. And then severity trends have been running closer to 10%. So you blend those 2 together to get to 6.5%.

So when you look at that and then look at where we have 2024 at 9% with no assumed frequency drop, we think that we feel pretty good about that. But then also remember, you're taking that 9% now and applying it to a higher starting point because your base years is the last -- more recent accident years, which have moved higher, you're applying that 9% forward trend to a higher starting point. And that's how we pull the pieces together. And we think that's reasonable and appropriate, and in line with what the more recent years have been telling us.

With regard to history, the longer-term history, Mike, I think this has been somewhat unprecedented in that the entire diagonal has been moving. All accident years and all evaluation periods have shown a movement higher in terms of severity emergence. And again, I think that's just another data point to suggest that this is a more widespread industry phenomenon.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. That's helpful. I guess for folks focusing on the outside like us focusing on your -- the actions you've taken in GL this quarter and previous quarters. Directionally, you can make the case that this is kind of a kitchen sink type quarter on GL, and that there's some cushion for loss trend to continue getting maybe a teeny bit worse, and SIGI wouldn't have to continue kind of taking up the GL picks. I don't know if you agree with that.

But on commercial auto, I guess you can -- some can make the case that there still might not be a lot of cushion in commercial auto. I don't know if you can unpack why reserves haven't been added. I know they were, but in a more meaningful way to commercial auto. Maybe you can unpack what the loss trend is there, and some other stats around why you feel commercial auto didn't need nearly as much of GL?

John Joseph Marchioni
CEO, President & Chairman

Yes. So I think if you look at commercial auto for us, in particular, you've actually seen some improvement over the last few years. And I would suggest that these higher severity trends that we're seeing right now in GL impacted commercial auto more quickly in large part because it's got a shorter tail to it. And I think the drop-off in activity, and therefore, the frequency benefits that I talked about in GL weren't as evident in commercial auto. So I think it came through when it was recognized more quickly in commercial auto.

But the other important point is the pricing -- the renewal pricing in commercial auto has been elevated for an extended period of time. We've been in the 8% to 10%, now 10.5% range for about 5, maybe more years. So you've got a lot more earned rate coming through to offset that loss trend. And I think that's the piece that many seem to be missing on the GL side is, when you look at GL rate and forget about umbrella because umbrella is a different animal, but the GL rate, which has been running in, call it, the 4% to 6% range industry-wide and for us as well, is probably short of where these updated trends are coming in. And that's why you really want to take a close look at the '19 and prior periods for both auto and GL, and where the current bookings are for '21 through '23, then overlay updated views of loss trends and overlay actual price increases to make sure that, that all holds together. And when I think if you do that analysis for us, I think you're going to feel pretty good.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. That is helpful. And I'll sneak one last one in, sticking on this topic. Is there anything you can help us kind of appreciate about why that consistent additions quarter-over-quarter for this -- in more recent quarters to the reserves? Is the process just simply that there's just such a big book of reserves as new data coming in every day that it just -- you need to take smaller bites of the apple that to really get to where you need to be. Or just maybe you could help kind of unpack or was there just so much new data this quarter that was so much meaningfully worse than you saw last quarter and the quarter before? Anything there would help.

John Joseph Marchioni
CEO, President & Chairman

Yes. Thanks. So I guess the first thing I would say and just to sort of reinforce the point, the 3 quarters, so the first reaction was the '20 and prior years and largely '19 and prior at the end of last year. So it's really the last 2 quarters we're talking about with regard to the more recent accident years. And I think we've always reacted to the emergence that we see in the quarter. So we're not just working off of actual versus expected claim activity. We're doing a full review on a line-by-line basis as we've always done and that continues to be our process.

I think the difference, and you heard the reference to it in our commentary about an addition to the emergence in the quarter, also contemplating some additional risk associated with some potential continuation of these trends. That was really the difference, which is after seeing in more recent accident years emerged worse than expected in 2 consecutive quarters, we thought it made sense to react a little bit more as a result of that.

Operator

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could touch a little bit more on the workers' comp business and maybe things that have historically been a bit of an offset from a reserve perspective? And should we be thinking about that as merely a pricing function that we see less development out of there? Or are there underlying trends that we should be aware of as well?

John Joseph Marchioni
CEO, President & Chairman

Yes. Thanks, Paul. So first thing is I would just highlight, our workers' comp continues to produce strong results. And I think that's evident in our reports here. Workers' comp has become a smaller portion of our reserve inventory over the last several years as that market has become hyper competitive from a pricing and a commission -- agency commission perspective, we have not been as competitive in most cases, by design.

With regard to what's happening from an emergence perspective, in addition to it being a smaller portion, I think what we've seen and pointed to of late is a leveling off of very favorable frequency trends that have persisted for an extended period of time. And I think everybody anticipated that at some point, frequencies would find a new level. And while it might change, and it could move around from quarter-to-quarter, we've seen what I would describe as a leveling off in frequency trends.

The other point to keep in mind is while economic or medical inflation relative to overall economic inflation has been pretty muted, you started to see that reverse in the more recent CPI prints. And you've heard us talk about this before. When you look at the component parts of medical CPI that drive workers' comp loss cost, it's about 90% physician services and hospital services, and then about 10% pharma and medical equipment. And in the more recent prints, that blended basket has been in the 4.5% or so range, 4.5% range, and wages are now at about 4%. So what was a favorable gap with regard to the medical component of the loss dollar has flipped, albeit slightly. And again, that could change but I think both of those dynamics in a negative rate environment just give us a little bit more of a conservative outlook in terms of how we think that line will emerge going forward.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Makes sense. Getting question this morning a little bit about the capital ratio, like, you have always historically been quite well capitalized, but you've typically had more operating leverage premiums to surplus and you're growing fairly. And then also, you have very low debt leverage. Given where the premiums or surplus is going, where the premiums are, does that suggest that you may raise a little debt and push the capital down into the subsidiary? Or is it still fairly self-funding?

John Joseph Marchioni
CEO, President & Chairman

Yes. I think, Paul, the operating leverage ratio targets that we talk about, and we certainly believe in, we also recognize that there are times where you might run outside of those targets mostly because we need to look at the overall capital position of the organization. Those ratios are calculated based on statutory capital and don't account for the additional capital that sits at the holdco. But when we think about where the growth is coming from, and the fact that a lot of the growth is driven by price and exposure change, and knowing a strong capital position overall, and the flexibility of having some of that capital sitting at the holding company is kind of our desirable position.

But we'll always evaluate the capital positions and the options that are available in the capital markets. Our debt to cap at just under 15% is well below the threshold that we're comfortable operating. So depending on prospects for profitable growth and where the debt markets on, we would evaluate those, and do what was most appropriate at the time.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. So that suggests, from a new business perspective, there's no constraints [indiscernible].

John Joseph Marchioni
CEO, President & Chairman

Yes.

Operator

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

Grace Helen Carter
BofA Securities, Research Division

I guess, you've already talked about how you tend to do extensive quarterly reserve reviews. I was just wondering if there's any sort of tweaks that you're going to be making to the process going forward, just given the recent adverse development, if maybe temporarily, you would be doing some additional work on a quarterly basis or if there's just anything that you think over a longer time period might make sense to implement on top of everything that you've already been doing?

And I guess, just obviously, today, the environment is quite challenging. But if at some point in the future, you start to see good news emerging, I'm wondering if you would be may be more hesitant to acknowledge that after this experience relative to history, if there's just any sort of impact on how quickly you might acknowledge good news relative to the past after the past couple of quarters.

John Joseph Marchioni
CEO, President & Chairman

Yes. Thank you, Grace. I guess what I would say overall is our carried reserve position is always established in the context of the risk factors that we see currently and in the future. And those risk factors shift over time. And as a result of that, our view of the carry reserve position relative to the actuarial indication or actuarial best estimate, will always flex based on that. That's always been our philosophy, and I would say, continues to be our philosophy on a go-forward basis.

We've had the very consistent and robust approach to quarterly reserving reviews. Now within that process, as the actuarial discipline continues to enhance and find new and different approaches to provide additional insights, we have always taken advantage of those. And I know from my own career here, the additional insights that we get as part of the traditional actuarial method outputs on a by line of business basis have continued to be enhanced, and that will continue to be the case going forward.

But your broader question about reacting to good or bad news, I think we've had a very consistent approach there, and it always has to be evaluated in the context of the risk factors in the moment and the risk factors that you see down the road to determine what your carried position should be relative to the best estimate or the indication.

Grace Helen Carter
BofA Securities, Research Division

And obviously, it's been a challenging social inflationary environment here lately, but I guess if we look at the E&S book, it has continued to perform quite well. And I was just wondering if you would kind of attribute the, I guess, the performance there relative to some of the challenges emerging to a greater extent in Standard Commercial fully to the freedom of rate and form or if there's any sort of differences in the makeup of that book otherwise across industries, geographies, anything that we should consider?

And I guess going forward, if given the greater freedom on the non-admitted side, if you're considering maybe pushing casualty growth to a greater extent there relative to the standard commercial lines where it's historically been on the bulk of your exposures?

John Joseph Marchioni
CEO, President & Chairman

Yes. No, great question. Let me answer the second part first. With regard to business moving from admitted to non-admitted, that will always be more of a market dynamic-driven shift because it's going to depend on whether there are other admitted markets. So a retail agency is always going to look to place its customers in an admitted product if they can so you would need a broader market move for that shift to happen. But we like our position in the E&S market, and we continue to see strong growth opportunities there, some of which is business migrating out of admitted into non-admitted.

With regard to your -- the first part of your question, though, with regard to reserving trends or loss trends in E&S, I would say the same trends with regard to increasing severities on GL exist in E&S that exists in Standard Commercial. With regard to what we're seeing in our particular book though, I would say a couple of things. That frequency trend, which has been favorable in Standard Commercial has actually been more pronounced in our E&S book in part because that book turns over at a more rapid clip. So you do see more movement from an underwriting perspective that has actually brought about a more pronounced frequency improvement.

We've also traditionally assumed higher severities in our expected loss ratios for the more recent accident years, and that frequency benefit has allowed us to build more into our assumed severity.

And then the final one, I think probably equally important point is the pricing -- the renewal pricing and new business pricing for that matter, in E&S casualty has been a lot stronger for a lot longer than it is in -- or has been in admitted, other liability or general liability. And I think all of those factors have resulted in a more muted impact with regard to emergence for E&S.

Operator

Our next question comes from the line of Scott Heleniak from RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Yes. Just wondering if you could talk about if you feel like you need any repositioning actions if you expect to see any of those in 2024 and 2025? And do you expect, the last couple of quarters, what's -- I guess, what's happened the impact in your growth plans on the commercial lines side, if you can talk about those 2?

John Joseph Marchioni
CEO, President & Chairman

Yes. So repositioning, if you're talking about the underwriting portfolio, I would say, no dramatic repositioning. As I mentioned earlier, I believe this is largely a pricing-driven issue from our perspective as opposed to wholesale shifts in our underwriting portfolio. So that's my high-level comment with regard to how we're responding to this. And I'm sorry, just give me the other part of the question again, Scott.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

The other part of the question is just does this impact any of your growth plans on the commercial line side, just the mid-and market side?

John Joseph Marchioni
CEO, President & Chairman

Thank you. So I would say that's more of a question of how our pricing stance might be either in line with or different from the market broadly. And again, I want to reinforce the point that we've made on multiple occasions here, which is, our run rate profitability for Standard Commercial, and if you look at the current accident year, excluding the impact of adverse development, call it, somewhere in the 96.5% range, well, let's call it, 96% to 97% kind of run rate combined ratio for Standard Commercial.

The gap to 95%, in the context of the loss trends we've talked about is not so significant that it's going to result in us being very disruptive in terms of a shift in our pricing strategy. So I would not -- while it certainly might impact growth a little bit, it's not a dramatic move in terms of where we are to where we need to be from an underwriting perspective.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Okay. That's helpful. And then on the rate improvement that you expect in the second half of the year, how much more rate do you think you need on GL and commercial auto and some of the areas where you feel like you need rate? Is it just a few more points? Or is it more significant than that to kind of get where you need to be at least for the next couple of quarters?

John Joseph Marchioni
CEO, President & Chairman

Yes. So again, I think -- and I know you know the math well enough. If you look at where we have loss trends, and I know we spent a lot of time focusing on GL at 9% but our all-in loss ratio, because you have to throw in the property at 4% -- our all-in loss trend, rather, it continues to be in that 7% range. And -- because you want to look at all of these lines together, I don't want to lose sight of the fact that we're getting 12.5 points of rate on property against a much lower trend.

So you've got directional movement in property which should be favorable. You've got commercial auto still running at about a 10.5% rate and we've mentioned on several occasions, what our assumed casualty loss trends are. And you've got GL moving higher against that loss trend, but your all-in starting point is relatively close to your target -- our target combined ratio.

So I think all of those pieces, when you put them together, look at the starting point from a profitability perspective, look at our forward trend assumptions at 7%, and our run rate pricing across all lines, and I think we're in a really good spot.

Operator

Our next question comes from the line of Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Curious on the catastrophe side component of loss trend on the property side. Selective over the years has been one of the few willing to also give guidance, so we can -- it feels like Selective has been assuming a higher catastrophe trend as well over time, although I can't -- sometimes -- there's property losses within the loss ratio attritional. But any thoughts on is the industry also kind of going to need to move up their catastrophe load or Selective's guidance overtime, too, given the weather trends?

John Joseph Marchioni
CEO, President & Chairman

Yes. We always look at a blend of model output and recent experience -- recent and longer-term experience. And when we set ours at 5% and remember, that's been drifting up. It was about 3.5% just a few years ago, and at 5%, that was kind of right in the middle of our 5- and 10-year averages and in line with the model output. We evaluate that on a regular basis.

I think for us, it's more of a personal lines issue where that drift higher has been happening more significantly. If you look -- so even this year through 6 months, our -- in an elevated cat environment, our Commercial Lines cat ratio is 5.3 points, which is maybe 30 basis points above our expected for that segment of business. So I think those have held pretty well. But I think there's clearly, based on the severe convective storm, activity that we've been seeing on a pretty consistent basis, it seems to be a bigger issue on the homeowner side in particular within personal lines. And my sense is that's where you're going to continue to see upward pressure on expected cat loads.

Operator

Thank you. At this time, I would now like to turn the conference back over to John for closing remarks.

John Joseph Marchioni
CEO, President & Chairman

Well, thank you all for joining us. And again, we appreciate you joining on very short notice. As always, if you have any questions, please feel free to reach out to Brad. Thank you, and we'll talk to you soon.

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.