S&P Capital IQ

CONTENTS

Selective Insurance Group, Inc. NasdaqGS:SIGI

FQ2 2017 Earnings Call Transcripts

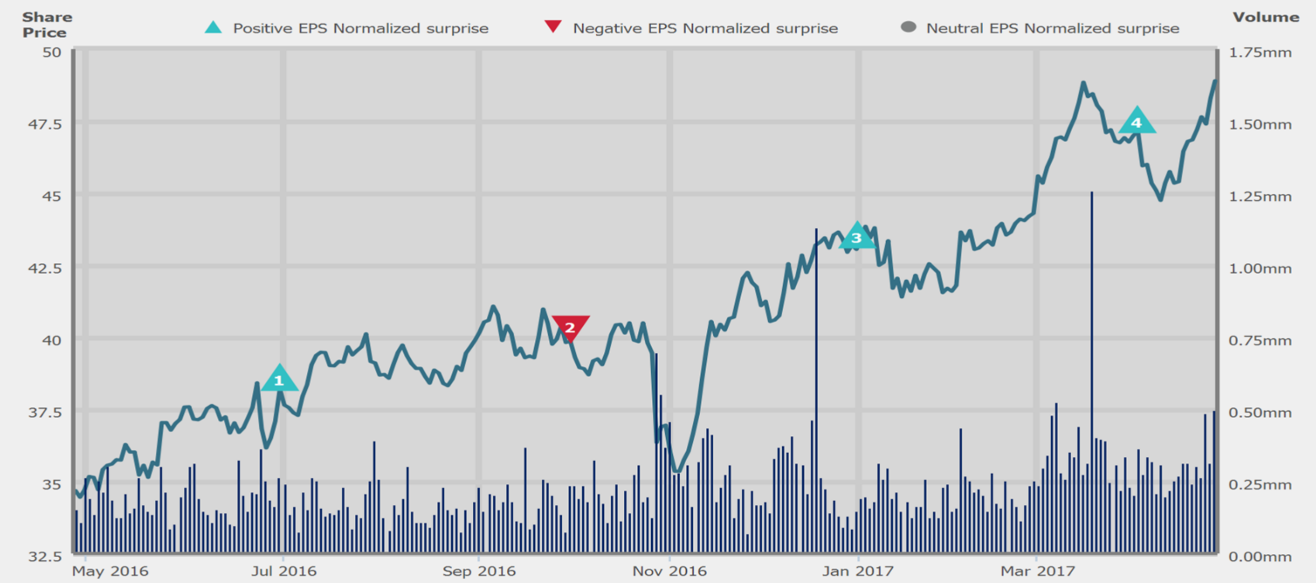
Thursday, July 27, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.73	0.68	(6.85 %)	0.78	3.13	3.10
Revenue (mm)	611.62	614.50	0.47	625.80	2474.80	2599.64

Currency: USD
Consensus as of Jul-27-2017 12:53 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.61	0.72	1 18.03 %
FQ3 2016	0.71	0.62	2 (12.68 %)
FQ4 2016	0.68	0.75	3 10.29 %
FQ1 2017	0.68	0.86	4 26.47 %

Call Participants

EXECUTIVES

Gregory E. Murphy
Chairman and Chief Executive Officer

John J. Marchioni
President and Chief Operating Officer

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Rohan Pai

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good day, everyone. Welcome to Selective Insurance Group second quarter 2017 earnings 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, Rohan Pai. Sir, you may begin.

Rohan Pai

Good morning, and welcome to Selective Insurance Group's second quarter 2017 conference call. My name is Rohan Pai, Senior Vice President, Investor Relations and Treasurer.

This call is being simulcast on our website, and the replay will be available through August 28, 2017. A supplemental investor package, which includes GAAP reconciliations of non-GAAP financial measures referred to on this call, is available on the Investors page of our website, www.selective.com.

Certain GAAP financial measures will be stated during the prepared remarks that are also included in our previously filed annual report on Form 10-K and quarterly Form 10-Q report. To analyze trends in our operations, we use operating income, which is a non-GAAP measure. Operating income is net income excluding the after-tax impact of both net realized investment gains and losses. 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 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 Form 10-Qs filed with the U.S. 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.

Joining today on the call are the following members of Selective's executive management team: Greg Murphy, Chief Executive Officer; John Marchioni, President and Chief Operating Officer; and Mark Wilcox, Chief Financial Officer.

Now we'll turn the call over to Greg.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thank you, Rohan, and good morning.

I'll begin with introductory comments and remarks and focus on some high-level themes for the second quarter. Mark will then discuss our financial results. John will review our Insurance Operations in more detail and provide additional detail on key underwriting initiatives.

Selective's second quarter results remain solid, despite a higher level of catastrophe losses. During the first half of the year, we continued to execute on our strategy of maintaining underwriting discipline while balancing our objectives around retention and top line growth.

Our 6-month consolidated statutory combined ratio was an excellent 91.4, or about 900 basis points, better than what A.M. Best expects the industry to report for 2017. On an underlying basis, if you adjust for catastrophe losses and reserve development, our year-to-date combined ratio was 90.2. Our standard Commercial Lines segment continued to produce excellent overall results, and we are pleased with our ongoing efforts to improve profitability in both our E&S and Personal Lines segments.

Our annualized operating return on equity was 9.9 for the second quarter and 11.5 for the first half of the year. Our year-to-date results were in line with our long-term goal of achieving returns that are 300 basis points above our weighted average cost of capital.

Selective's financial results reflect our continued commitment to seeking adequate pricing for the risks we are assuming. We continue to invest in our field-based underwriting model that empowers local decision-making authority, building sophisticated underwriting tools and capabilities, as well as enhancing customer experience with an omni-channel focus. These initiatives underline our high-tech, high-touch operating model and drive our strategic competitive advantages.

We obtained targeted renewal pure price increases in our standard Commercial Lines business, averaging 3.1 for both the second quarter and 6 months of the year. We have outperformed the industry average as measured by Willis Towers Watson Commercial Lines or CLIPS Index Survey for price increases for the past 32 consecutive quarters ending March 31, 2017, and expect to outperform in the second quarter as well.

Maintaining discipline is particularly important in the current prolonged low-interest rate environment, where companies cannot generate enough ROE on investments to compensate for inadequate underwriting results. A.M. Best's forecast for Personal and Commercial Lines for 2017 is a 100.3 statutory combined ratio that translates to an overall ROE of approximately 5%, which is clearly not acceptable.

We generated solid net prem written growth of 6% for the first half of the year. Our ability to grow our book while maintaining strong profitability relies on three key factors. First, our franchise relationships with our Ivy League distribution partners allows us to clearly communicate our risk appetite and access the most attractive business through our field underwriters. Second, our inside renewal teams work with our distribution partners to adjust pricing and non-renew business if necessary 60 to 90 days in advance of the renewal date. And finally, our sophisticated underwriting tools and processes allow us to price, for instance, on a granular basis and understand the risk-reward characteristics of our new and renewal business.

Our margins in the second quarter were impacted by higher catastrophe losses from severe weather in the Midwest and some development on catastrophe losses for prior period. In particular, our results included losses from severe convective storms in March that produced large hail and strong winds and generated higher-than-expected frequency and severity. Overall, we manage our catastrophe loss volatility by purchasing a reinsurance program that has a low retention of $40 million per event and limits our exposure at the 100- and 250-year return period or 4% probably event set to 3% of stockholders' equity.

I'm very encouraged by our performance for the first half of the year and by our strong financial position. We continue to invest in initiatives to improve our underwriting sophistication and enhance our experience that we offer with our distribution partners and customers. I have no doubt that these investments will position us for sustained outperformance in the future.

Turning to guidance -- after completing 6 months of the year with solid results, we are: one, improving our 2017 guidance for an underlying statutory combined ratio, excluding catastrophe losses; two, 89.5 from our prior guidance of 90.5. This updated forecast incorporates favorable reserve development in the first 6 months of the year but assumes no additional prior year reserve development; two, catastrophe losses of 3.5 points; three, increasing our forecast for after-tax and net investment income to $113 million from our prior guidance of $110 million; and four, weighted average shares outstanding of 59.2 shares on a diluted basis.

Before turning the call over to Mark, I wanted to take a moment to mention that we'll be hosting an Investor Day in New York City on Thursday, November 9. You should've already received a save-the-date notification. If not, please contact our Customer Relations team, and they will make sure they get the details to you.

Now I'll turn the call over to Mark to review the results for the quarter.

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Thank you, Greg, and good morning. I'll discuss our financial results, beginning with some key metrics and trends for the company as a whole, and then we'll also touch on our segments.

But before I begin, I'd like to highlight that we have enhanced our financial disclosures with the rollout of a new, more detailed financial supplement this quarter. We strive to maintain a high level of financial disclosure and transparency, and hopefully this new supplement helps you better understand and model Selective's financial results. This is a presentation change only, and there were no changes to our historical numbers on that whole metric.

For the quarter, we reported $0.70 of fully diluted earnings per share and $0.68 of operating earnings per share. We generated an annualized return on equity of 10.2% and an operating ROE of 9.9%. Through the first 6 months, we have generated operating income of $91.4 million, which is up 13% from 2016. Overall, our annualized operating ROE of 11.5% for the first half of the year is in line with our long-term financial target and [improves] in the year-ago period.

For the second quarter, GAAP underwriting income totaled $20 million after- tax and accounted for 4.9 points on the operating ROE. The investment portfolio generated after-tax net investment income of $30 million. The strong investment performance, coupled with our ratio of invested assets and equity at 3.3x resulted in 7.5 percentage points of annualized investment income contributions in the operating ROE.

Consolidated net premiums written were up 6% for both the second quarter and year-to-date periods. The combined ratio was 94.7% in the second quarter on a GAAP basis and 93.1% on a statutory basis. On an underlying basis, or prior to catastrophe losses and reserve development, our standard combined ratio was 90.4% for the quarter and 90.2% year-to-date, both of which are better than the guidance we issued back in February.

After a number of quarters of relatively benign catastrophe loss activity, our results this quarter include $29 million of catastrophe losses, which added 5.2 points to the combined ratio. Of this amount, $17 million related to second quarter event impacted the combined ratio by 3.1 points.

We also experienced $9 million of current accident year development principally related to three hail events which took place late in the first quarter of 2017. In addition, we incurred $3 million of development from a couple large one-one reported claims from these hail events which occurred in 2016. $12 million of combined catastrophe loss development increased our catastrophe loss ratio by 2.1 percentage points for the 5.2% which we reported in the quarter. Year-to-date, our cat loss ratio of 3.7% is in line with our expectations for the first half of the year.

In the second quarter, we experienced $14.3 million of net favorable casualty reserve development, which reduced the combined ratio by 2.5 points. Our practice of setting loss and expense reserves is disciplined. And for the past 11 years, we have experienced net favorable cash on the reserve development. Our strong results thus far in 2017 are a reflection of our ability to obtain adequate pricing and also reflect our strategic initiatives around operating mix improvement, claims handling and expense management.

Moving on to the segments -- our standard Commercial Lines segment net premium spreads were up 7% from the second quarter, 6% for the first half of the year. The quarter's GAAP combined ratio for Commercial Lines is 92.2%. Results benefitted from $17.3 million or 3.9 points of net favorable proprietary casualty reserve development.

Development was comprised primarily of reserve releases of $15 million each of general liability for Workers Compensation line of the business, partially offset by $15 million of adverse development in commercial [orders]. Commercial Lines segment also experienced $17 million of catastrophe losses which added 3.8 points to the combined ratio.

In our standard Personal Lines segment, net premiums written were up 3% for the second quarter. The GAAP combined ratio of 108 was impacted by 13 points of catastrophe losses, 4.2 points of net adverse reserve development. The unfavorable development consists of $2 million related to personal order and $1 million related to the homeowners line of the business. Despite the catastrophe losses, we are pleased with our Personal Lines book, with homeowners operating close to our long-term targets on an underlying basis.

In our E&S segment, net premiums written increased 6% for the second quarter. The GAAP combined ratio of 97.5% included $3 million of 5.7 points of catastrophe losses. We're encouraged by the trend in underlying margins and will continue to see targeted price increases as we look to bring the profitability of this segment in line with our long-term targets.

Moving on to expenses -- our overall GAAP expense ratio was 34.2% for the second quarter, which is down 120 basis points in the comparative quarter. On a statutory basis, the expense ratio was down 100 basis points from the year-ago period, down 70 basis points year-to-date. We are focused on seeking out areas of efficiency and cost savings while continuing to invest in our employees and key initiatives around enhancing our underwriting tools in the customer experience.

Other expenses, which are principally comprised of holding companies costs and long-term compensation, were also down relative to the comparative quarter but elevated relative to our expectation. This is primarily due to higher costs related to our long-term stock compensation plan arising from the strong appreciation in our share price for June 30.

We continue to expect expense savings in this line item due to the restructuring of our long-term stock compensation plan we completed earlier in the year, although there is some volatility in this line item given the variable accounts [in each portion] of the plan.

Turning to investments for the quarter -- after-tax net investment income was up 29% from a year ago. Fixed income securities, which represent 93% of our portfolio, experienced an increase in after-tax net investment income resulting mostly from a higher book yield, driven by the restructuring of our core fixed income portfolio over the last several quarters, which is now largely complete.

Our fixed income portfolio is highly rated, with an average credit quality of AA minus and a 3.7-year effective duration, including short-term investments. Yield on the fixed income portfolio averaged 2.2% on an after-tax basis during the quarter compared with 2% a year ago. And new money yield on the fixed income portfolio during the second quarter was 2.2% on an after-tax basis, which reflects three consecutive quarters of increases.

Alternative investments, which report on a one-quarter lag, reported a very strong pretax gain of $5.2 million for the quarter. The results were driven by solid performance in the private equity and energy sector for this portfolio. Risk assets, which principally include high-yield fixed income securities, equities and alternative investments, remain consistent with year-end at 7% of total invested assets. We've been gradually diversifying our investment portfolio and will likely modestly increase our risk asset allocation over time depending on market opportunities.

Our balance sheet remains strong, with $1.7 billion of GAAP equity at June 30. Book value per share increased 4% during the quarter and 7% for the first 6 months of the year, benefitting from strong earnings and net unrealized investment gains. We are adequately capitalized to support our growth and continue to target a premiums-to-surplus ratio of approximately 1.4x, which is about twice the industry average. We continue to adopt a conservative stance with respect to managing our underwriting appetite, investment portfolio, reserving in processes and catastrophe risk. This allows us to maintain higher operating leverage than the industry as a whole, which each combined ratio point equating to a point of operating ROE.

With that, I'll turn the call over to John to discuss our Insurance Operations.

John J. Marchioni
President and Chief Operating Officer

Thanks, Mark, and good morning.

We continue to move forward with various initiatives to drive our strategy and position the company for sustained outperformance. We remain focused on generating disciplined and profitable top line growth. The three drivers of our growth will be new agent appointments in our current markets, increased share of wallet with our existing agents and geographic expansion into new states. Our longer-term Commercial Lines targets of building agent relationships representing 25% of their markets and seeking a 12% share of wallet within each agency together translate to a goal of a 3% market share in Commercial Lines, or an additional premium opportunity in excess of $2 billion. We've appointed 45 new agents during 2017 in our current footprint as we continue to drive our market share higher.

In addition, we continue to execute our geographic expansion plans. Selective has appointed 16 agencies in Arizona and 9 in New Hampshire. These agencies control about 25% of the available Commercial Lines premium in their respective states. We began quoting Arizona and New Hampshire business opportunities actively through the second quarter, leading up to our July 1 opening of these two new states. And we are pleased with the early performance in both markets.

We deployed our new underwriting tool, Underwriting Insights, to our new business underwriters. This tool incorporates our predictive marketing capabilities and provides our new business underwriters with real-time insight into how each prospective account compares to similar accounts already in the portfolio. This is in keeping with our goal of constantly improving at deployment and utilization of our sophisticated pricing tools. We complement our underwriting tools and technology with strong agency relationships that are built around our field-based underwriting model and our regional small business teams.

On the customer experience front, we continue to make progress towards achieving our goal to deliver a seamless omni-channel experience, allowing customers to interact with us and our agents in the manner they choose. We have made significant investments in our mobile platform and continue to eliminate friction points for our customers. Our goal from a data management perspective is to develop a 360-degree view of our customers, enabling us to provide outstanding service and the most effective insurance solutions to our agents and policyholders.

Moving on to our operations -- our standard Commercial Lines segment, which represented 78% of total second quarter net premiums, again produced extremely strong results for the quarter, with a statutory combined ratio of 90.6. Solid net premiums written growth was driven by stable retention of 83%, new business growth of 3% and renewal pure price increases averaging 3.1% for the quarter.

Overall competition remains fairly intense, especially for new business. We continue to execute on our strategies to balance our top line growth goals of achieving target levels of profitability. And increasing our agent's share of wallet remains a high priority for us, and we believe we can achieve this goal while maintaining our disciplined approach to new business pricing and risk selection.

We constantly monitor our renewal pricing on a granular level based on profitability expectations using our Dynamic Portfolio Manager. From the highest-quality standard Commercial Lines accounts, which represented 47% of our premium in the quarter, we achieved renewal pure rate of 1.2% and point of renewal retention of 91%. On the lower-quality accounts, which represented 12% of premium, we achieved pure rate of 6.6% and point of renewal retention of 80%. This granular approach to administering our renewal pricing strategy allows us to achieve additional loss ratio improvement through mix of business changes, while continuing to deliver pure rate increases in excess of expected claims inflation.

Going down to the results by line for Commercial Lines -- our largest line of business, general liability, reported $15 million of favorable prior year casualty reserve development, which related primarily to lower-than-anticipated claim frequencies and severities for accident years 2015 and prior. We achieved renewal pure price increases of approximately 2.6% so far this year. Our Workers Compensation line also reported $15 million of favorable prior year casualty reserve development, which related primarily to lower-than-anticipated claims severities for accident years 2016 and prior. Favorable claims trends have resulted in increased competition for this business. We nevertheless achieved a positive renewal pure price increase of approximate 0.6% for the first half of the year.

Commercial auto, on the other hand, remains a challenging area that we are focused on to improve the overall performance. For the second quarter, commercial auto experienced $15 million of unfavorable prior year reserve development, primarily relating to higher claim frequencies and, to a lesser extent, severities for the 2015 and 2016 accident years. We have been actively implementing price increases which have averaged 6.7% so far this year and believe the elevated loss trends support the need for additional [rates]. In addition to price increases, we've also been actively managing the renewal book in target industry segments and reducing exposure to higher hazard classes.

In Personal Lines, which represented 13% of our total second quarter net premiums written, the statutory combined ratio was 105.9 for the quarter. Homeowners line experienced significantly higher catastrophe losses for the quarter resulting from a range of severe weather-related events. We expect this from time to time and remain pleased with the underlying performance of the book. We continue to target a 90% combined ratio in a normal catastrophe year or one that has approximately 14 points of losses, catastrophe losses, for this line. Renewal pure price increases across our homeowners book averaged 2.1% in the first half of the year.

In personal auto, we've seen higher-than-expected frequencies in the most recent accident years. We experienced $2 million of unfavorable reserve development in personal auto during the second quarter, largely due to higher frequency and severity in accident year 2016. As the industry moves to address increased loss cost inflation of this line, it should provide us with opportunities to grow the book while improving margins. A sharp increase in new business volume has resulted in a pickup in premium growth of the personal auto line in recent quarters. Renewal pure price increases on our book averaged 2.8% for personal auto liability and 3.7% for personal auto physical damage for the first half of the year. Our plans for 2017 incorporate rate filings averaging approximately 6% for personal auto.

Our E&S segment, which represented 9% of total second quarter net premiums written, generated a statutory combined ratio of 97% for the quarter. We've been taking deliberate steps to push pricing where appropriate and let go of business that does not meet our profit threshold. Price increases average 5.6% so far this year, with significantly higher rate increases in the general liability line of business.

We've made a concerted push in recent quarters to increase pricing on our renewal portfolio. We also expect changes to our business mix, an enhanced technology platform and improved claims management processes to contribute to better performance in future quarters.

Looking out to the remainder of 2017 and beyond -- we'll maintain a strong focus on underwriting and pricing discipline as we see profitable growth opportunities. Our strong relationships with our Ivy League distribution partners remain among the best in the industry and are key to the successful execution of our strategy.
With that, we will open the call up for questions. Operator?

Question and Answer

Operator

[Operator Instructions]. Our first question is from Arash Soleimani from KBW. Your line is open.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

A few questions -- I saw you took the guidance down by a point. I just want to make sure I'm interpreting the core combined ratio portion of it property. So I know you had -- I think if I annualize it, it's about 1.3 points of favorable. So that would imply that the core combined is going from 90.5 to 90.8. Is the point that it really is still at 90.5 just a matter of kind of using round numbers? Or should we think of it as ...

Gregory E. Murphy
Chairman and Chief Executive Officer

I think you should do it as round numbers. Take 2.5 points of favorable development through 6 months, divided it by 2, you get 1.25. We're splitting quarters of a point right now. So yes. Yes.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then, within the current quarter, I think on a GAAP basis, if I back out an 80-basis point uptick of non-cat weather, the core loss ratio went up about 40 basis points. And I just wanted to see, is that something that's kind of secluded or isolated to the auto lines of business? Or just wanted to get a better sense of what drove that.

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Yes, Arash, it's Mark here, good question. So I think what you're referring to is on a GAAP basis, on a comparative quarter, backing out cat losses, backing out favorable development and non-cat property losses, the underlying loss ratio is up about 30, 40 basis points on the comparative quarter. And what you're seeing there is really two things. One is with the rate increases in auto, auto as a percentage of the premium is a slightly bigger line within the overall loan premium mix. And that's booked to a higher loss ratio than the rest of the book. And we are booking the 2017 loss ratio in commercial order a little bit higher than we were a year ago. So that is the driver of that uptick in the underlying loss ratio.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Thanks. And I know you've provided the renewal pricing numbers. I just wanted to know, how does new pricing compare to renewal pricing?

John J. Marchioni
President and Chief Operating Officer

Certainly.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

[Indiscernible] ...

John J. Marchioni
President and Chief Operating Officer

[Indiscernible] this is John. So we don't disclose a new a business pricing number, because it's not nearly as accurate as a renewal pricing number, because you don't have the same basket of policies to compare. You're writing a very different mix of business from one year to the next, so it's very difficult to compare. When we refer to our sophisticated underwriting and pricing tools, our underwriters and regional management teams do have a lot of information on an account-by-account basis in terms of how they're pricing a piece of new business relative to how that same class and quality of account is priced in the renewal portfolio, and how that renewal portfolio as it's priced is producing from a margin perspective. So transactionally, our folks understand what's happening from a new business pricing perspective. But you can't roll that up in a way that we would be comfortable disclosing a new business pricing number. But we've said over and over again, we very much manage that. We see how that performance is coming in relative to expected loss ratios on new business, and we're comfortable with the quality in the pricing.

Gregory E. Murphy
Chairman and Chief Executive Officer

This is Greg. Yes, and take it even, from John's, a little bit further. So we're looking at it by class of power unit, what the renewal rate per unit is, what the new rate per unit is. And so we're looking at that by geography. And those are the things that we're kind of anchoring to, which -- new business and new business pricing is a little bit more difficult to get your arms around. But I have to tell you that we're doing everything that we can to better understand the price level that we write into a piece of business at.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Thank you, that makes sense. My other question -- on your wallet share and market share initiatives, I think $2.8 billion is the opportunity that you've mentioned before. And that excludes the new states, correct?

John J. Marchioni
President and Chief Operating Officer

That does. That's a number that we've put out there based on the 25- and 12-share of wallet in our existing states.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

And how would you define, I guess -- do you have a similar number you could provide for the new states, or how we should think about that?

John J. Marchioni
President and Chief Operating Officer

I would think about it in the same terms. So as we mentioned in the prepared comments, in both our new states, Arizona and New Hampshire, we actually started out with a set of agency partnerships that about write 25% of the market. And again, these numbers are never precise to the decimal point. So you want to think of them as directional targets. We would fully expect over several years to be marching towards that 12% share of wallet in those same states. I think what you really want to focus on in terms of premium opportunity, though, is get yourself to that 3% market share. So look state-by-state at the available premium in each of our footprint states, and then look at a 3% share. For us, the 25 and 12 are the management levers that we push in order to drive to that overall market share. That's really where the opportunity number is coming from. And we said in the prepared comments in excess of $2 billion of opportunity. Because again, those numbers lag a little bit in terms of getting the reported premiums. But we continue to focus on those two management levers that I mentioned.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Thanks. And obviously on the wallet share piece, to increase that, it takes the business, I guess, from someone else. So I guess, can you maybe just talk a bit about how you are able to take that business from others? And is this mostly from small regional carriers do you think you're winning the business from? Or where do you [indiscernible] that opportunity is coming from?

John J. Marchioni
President and Chief Operating Officer

You mean, how we're winning it, other than better products, better underwriting, better people, better claim service? No, listen, that's our value proposition, and it has been for a long time. And our agents, and the approach we've had and the partnerships we've had, we generally have a group of approximately 1,200 agents that want to grow their business with us. Because they know the product is better, they know we're going to have a very consistent underwriting pricing philosophy, and they know that, from a claims service and other servicing perspective, we're going to outperform everybody else that they have in their lineup of companies. So there's no question. If you look at our share of wallet growth expectations, there is a fair amount of that that will come from other companies' controlled accounts that they're going to move to us or give us an opportunity to quote on renewal. But at the same time, we also are working with our agency partners to ensure that they're growing new opportunities, new to the agency, which is also going to give us an ability by -- writing a higher percentage of their new business to the agency than other carriers are writing is also how we expect to grow share of wallet over time.

Gregory E. Murphy
Chairman and Chief Executive Officer

And then, this is Greg. So the two things I would kind of add to that -- and John touched on it in his opening comments -- one is the omni-channel customer experience, 24/7. That is something that we've been talking to our agents for now multiple years and driving them into that kind of environment. I don't know how many of our other competitors talk to you about what they're doing on their agency plan. But for us to be able to execute that strategy with a franchise value is a heck of a lot easier than doing it with an agency plant that has thousands and thousands of agents. That's a point that you always want to stay focused on. And I think then that relative to the -- we're clean in terms of a lot of the things that we do with our agents, in terms of our line of site, our supplemental commission programs, and then the fact that there isn't really channel conflict with Selective that you may start to see evidence of, and maybe more evidence of as we march into the future. So again, we're trying to position our agents to be best-in-class for small business, for medium business and for large business. And I think that's the way you need to think of us. And our share of wallet at 12 -- I would say that as we continue to expend our state capability in other things that we would expect that that share will increase over time. It's not going to go up hugely. But as we continue to handle accounts in multistate areas, our share of wallet should go higher. So that 12 share of wallet is based on our underwriting appetite today and our config of states that we've got in the inventory.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Thanks. And the one other thing I wanted to ask -- you mentioned that you've been shifting to lower-hazard business on the E&S side, which should help on the margin. I just wanted to ask why does that help on the margin, just because I would assume that the lower-hazard business has lower premium. So what is it about that that drives it? Because I've also heard some other carriers mention in certain lines that if they go for higher-hazard business, and they manage the severity there, they can potentially even get a bit more margin because the rates there are higher. So could you just talk ...

John J. Marchioni
President and Chief Operating Officer

I'm sorry, just clarify -- you broke up when you were saying what segment you're talking about. Are you talking about auto or E&S? I'm not sure what ...

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

I'm sorry, I'm talking about E&S.

John J. Marchioni
President and Chief Operating Officer

Okay. So from an E&S perspective, we haven't really shifted our hazard mix. We've always been a pretty low -- let's call it low-hazard within the E&S space, low limits profile, generally $1 million limits in lower. Our average premium size is about $3,000. And it's generally contractors, restaurants, bars and taverns, small habitational risk. So the risk profile for us has not really changed in terms of the hazard mix that we've talked about.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that makes sense. Thank you.

Operator

Our next question is from Scott Heleniak from RBC Capital Markets. Your line is open.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

I was wondering if you could just follow up on the comment -- John, you made the comment about intense competition. And certainly we've heard others kind of talk about that along those lines. So can I take that to mean, has that really picked up a whole lot in the last couple quarters? And are you seeing some more aggressive behavior than maybe you were a year ago?

John J. Marchioni
President and Chief Operating Officer

I would say that is, in fact, what we're seeing. And again, it's going to vary geographically, it's going to vary a little bit depending on the class and the line of business we're talking about. But I would say sequentially, over the last several quarters, you have seen competition for new business intensify. Now interestingly, we've been able to do an excellent job of managing the renewal inventory with continuing solid retentions and still achieve and actually slightly outperform expectations with regard to pricing. But new business hit ratios are under pressure. And we've seen that really get dialed up. I think the one line in particular that may be worth of note would be Workers Comp, which is surprisingly amongst the most competitive. And I say surprisingly because we've certainly seen significant performance improvement over the last few years, as has the rest of the industry. But overall margins on an accident year basis are right around target for us and for the rest of the industry. But you are seeing a much heavier discounting of that line, you're seeing much more focus on increasing commission levels, especially in the low- and medium-hazard smaller comp segments. So I would say that would be one area in particular we're seeing the competition dialed up the most.

Gregory E. Murphy
Chairman and Chief Executive Officer

And then interesting too, Scott, when you see some problems at certain carriers in the marketplace, they have a tendency to go counter and get more aggressive on pricing for new business to try to keep the engine going. So it's a little bit of a mixed grill. But we want to make sure that our underwriters in the field are maintaining discipline. And we're closely monitoring their overall performance.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

And I guess some people are chasing the performance there on the Workers Comp, which has been a very good line over the past few years for most people.

Gregory E. Murphy
Chairman and Chief Executive Officer

It is your highest inflation line that you write in the business.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Got it. Absolutely. Speaking of that, have you see any real kind of loss cost inflation uptick at all in any lines? Obviously, it doesn't sound like in Workers Comp. But anywhere else, or any uptick in [indiscernible] costs or anything?

Gregory E. Murphy
Chairman and Chief Executive Officer

I would say to you that overall it's been fairly tame. But the line that has seen loss cost inflation the most is commercial auto. And that's why we're not generating as much improvement in that line as we would normally expect. Remember, our 6-month rate increase year-to-date in the liability aspect of the policy is 7.5%. On the physical damage side, it's 4.7%. So when you add the two together, you're in a 6.7% rate level. That is an enormous amount of rate in line. But that rate is being mostly offset by higher trend. And so I would say that that is the line that we've seen a little bit more pressure relative to what's happened on trend. And trend's been mostly on the frequency side, although some severity. But it's mostly been frequency focus relative to what's happened there. And that may be a little bit, in personal auto, you can attribute that to distracted driving. I'm glad to see some states start to adopt EUI now, right, electronics under the influence, and other aspects of that. And that in my mind is a positive, because you just see it all over the place. So whether it's gas prices, whether it's poor road conditions, whether it's just traffic congestion, but miles driven are up. And we're seeing a little bit higher frequency. But as you guys know, auto is the smaller part of our overall, in terms of what we said we were going to go relative to profit improvements. I don't want anybody to be off at that, that we said we were going to lay into that over time. As John mentioned, we were going to push a little bit higher on rate in the 6% level. And that's because we're seeing market conditions change fairly quickly in that segment -- in that line, I should say.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Is that 6% -- I mean, that's obviously an average. But is there areas where it's significantly higher than the 6% that you feel like it's kind of -- we've definitely seen companies with upper single-digit rate increases there, and I didn't know if there's any states where that kind of stuck out as well.

John J. Marchioni
President and Chief Operating Officer

Yes. Just clarify one point: the 6% we quoted in our prepared comments refers to the full annualized impact of the rate filings we're making in the calendar year. So those are staggered over the course of years and will earn their way into 2018. You do see some variation from state to state around that 6% based on our own individually developed rate level indications. But overall, I think the trends that Greg just took you through are fairly universal. And it's a matter of what your profitability is in your book as a starting point. But they're all moving directionally at about the same pace.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. And just a few more on Personal Lines -- you saw a bit of growth again, which you did also in the first quarter. Some of that is obviously rate. But are you guys feeling a lot better about this business where you feel like you can get some sustainable growth? That's the first. And then, the second on that is, how many of new agencies you're appointing, excluding the new states, are writing personal lines? Just not an exact number, but just generally, how is that trending?

John J. Marchioni
President and Chief Operating Officer

Yes, great questions. Let me take the first one you asked relative to sustainability of growth. So you've now seen another quarter of growth in that 3% to 4% kind of range, driven predominantly by growth in the personal auto line. Homeowners growth has been relatively flat over the last few quarters. And we see that being an opportunity for us to continue to drive our growth going forward. As we start to pick up increased new business opportunity on a package basis, with our home line driving profitability, we like kind of the run rate we're on right now, in that 3% to 4% kind of range, and feel good based on where the pricing environment is marketwise. And [indiscernible] is very good about our positioning in those markets. With regard to new agency appointments, our general philosophy in the states in which we have both personal lines and commercial -- which is 13 personal lines states of our now 24 commercial lines states -- our general philosophy is to appoint agents that write both personal and commercial. We don't go out there and make a lot of commercial lines-only appointments. What I will say is, based on market opportunity, we're in fact starting to make more personalized predominant appointments. In other words, there are gaps in our agency plant from a personal lines production perspective. Because we've got very strong commercial lines-predominant agents that are in place, we are making more personalized-predominant. But they're also multiline appointments. And that'll continue to be our general philosophy, being that we're going to be a better partner to an agency if we give them a better product on both commercial and personal lines. I'm not sure if I addressed the entire question there?

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

That's perfect, that's a good answer. Thanks for the new supplement format, too, there's definitely some good details in there. So that's all I have. Thanks.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thanks, Scott. [Indiscernible] and Mark did a great job on that, so thank you for that comment. Operator Bob, next question?

Operator

[Operator Instructions]. Our next question is from Alison Jacobowitz from Bank of America. Your line is open.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Most of my questions have been answered. I'm just wondering, can you do me a favor and [indiscernible] for, I understood it right, [indiscernible] the prior period catastrophe effect in the quarter, what it was total? I'd appreciate ...

Mark A. Wilcox
Chief Financial Officer and Executive Vice President

Sure, Alison, this is Mark here. I'll walk you through those numbers. In the quarter, you saw we had $29 million of total catastrophe losses, which was 5.2 points on the combined ratio for Q2 '17. Of that, $17 million relates to events that took place in the second quarter, which represents 3.1 points. $12 million relates to development on events that took place in prior periods, of which $9 million relates to Q1. There were three events that happened late in the first quarter that resulted in $9 million of current accident year development. And then there was -- there's also a little bit of development from some large reported losses in 2016, and that was about $3 million. So net-net, of the 5.2 points of cat losses in the quarter, 3.1 in the quarter are from current-quarter events and the 2.1 from our prior period events.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Thank you very much.

Gregory E. Murphy
Chairman and Chief Executive Officer

Bob, are there any more questions on the line?

Operator

At this time, we have no further questions on the line.

Gregory E. Murphy
Chairman and Chief Executive Officer

All right. Well, thank you very much for participating. Remember our Investor Day in November. Rohan is looking for you to be there. Some very good things he's got planned for that meeting, so thank you very much. If you have any follow-up items, please contact the Investor Relations team and Mark.

So thank you very much for participating in the call today.

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