S&P Capital IQ

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The Hanover Insurance Group, Inc. NYSE:THG

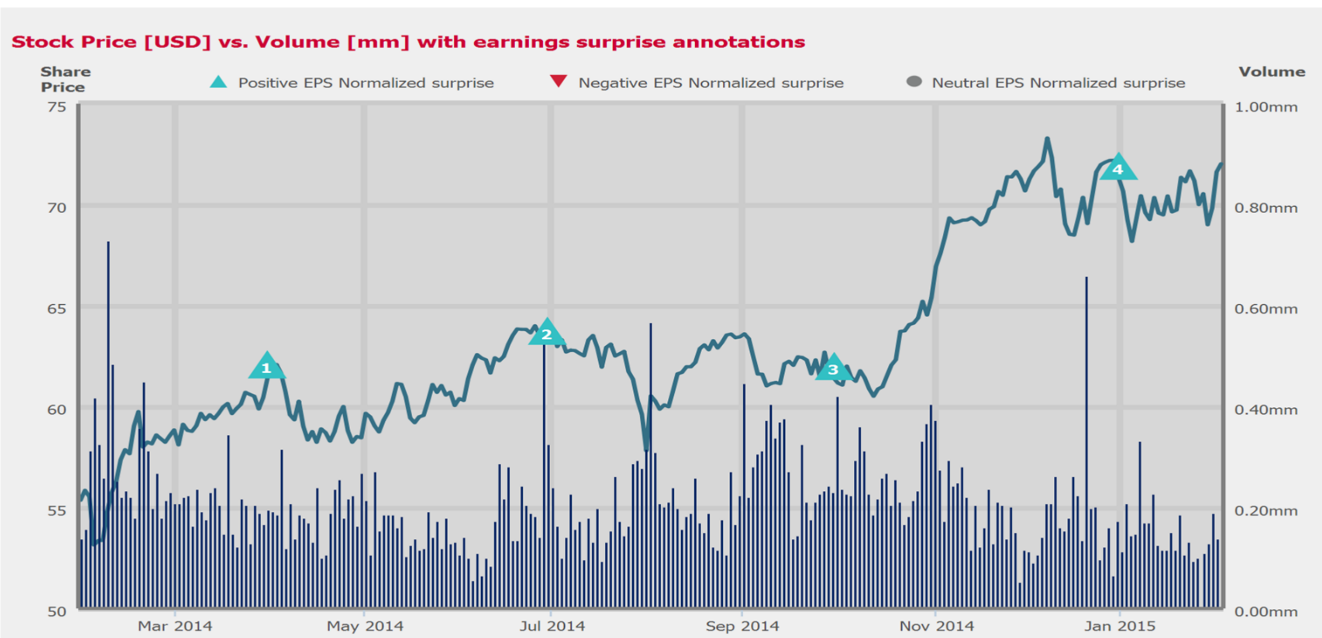
FQ1 2015 Earnings Call Transcripts

Friday, May 01, 2015 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.08	1.27	▲17.59	1.54	5.75	6.15
Revenue (mm)	1232.20	1215.10	▼(1.39 %)	1304.30	4879.20	5050.90

Currency: USD
Consensus as of May-01-2015 5:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.94	1.05	▲11.70 %
FQ2 2014	1.18	1.30	▲10.17 %
FQ3 2014	0.91	1.06	▲16.48 %
FQ4 2014	1.50	1.77	▲18.00 %

Call Participants

EXECUTIVES

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

John C. Roche
President of Hanover Agency Markets

Oksana Lukasheva
Vice President of Investor Relations

Richard W. Lavey
Chief Growth Innovation Officer

ANALYSTS

Christine Amanda Worley
JMP Securities LLC, Research Division

Dan Farrell

Joab Dempsey
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2015 The Hanover Insurance Group, Inc. Earnings Conference Call. My name is Mark, and I'll be your operator for today. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to Oksana Lukasheva, Investor Relations. Please proceed.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, Mark. Good morning, and thank you for joining us for our first quarter conference call. We will begin today's call with prepared remarks from Fred Eppinger, our President and Chief Executive Officer; and David Greenfield, our Executive Vice President and CFO. Available to answer your questions after our prepared remarks are Dick Lavey, President of Personal Lines; Andrew Robinson, President of Specialty lines; Jack Roche, President of Business Insurance; and Bob Stuchbery, President of International Operations and Chief Executive Officer of Chaucer.

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

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements, including our earnings guidance for 2015. There are certain factors that could cause actual results to differ materially from those anticipated by this press release, slide presentation and conference call. We caution you with respect to reliance on forward-looking statements and, in this respect, refer you to the Forward-Looking Statements section in our press release, Slide 2 of the presentation deck and our filings with the SEC.

Today's discussion will also reference certain non-GAAP financial measures, such as operating income; operating results, excluding the impact of catastrophes; and accident year loss and combined ratios, excluding catastrophes, among others. A reconciliation to these non-GAAP financial measures to the closest GAAP measure on a historical basis can be found in the press release or the financial supplement, which are posted on our website, as I mentioned earlier.

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

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thanks, Oksana. Good morning, everyone, and thank you for joining our first quarter earnings call.

We are pleased to report strong and improving results for the quarter as demonstrated by operating income per share of $1.27 and an operating return equity of 9%, which included the impact of elevated winter weather in the Northeast. Along with our financial results, our key metrics and business indicators are tracking in line with our expectations. Specifically, we experienced growth in all our domestic businesses, while achieving solid rate increases and improved retention. Domestic combined ratio, excluding catastrophes, improved by almost 2 points over the prior year quarter to 93%. Despite severe weather in the Northeast, catastrophe losses in total were only slightly higher than our expectations. We delivered on another good quarter at Chaucer. Our net investment income increased by 5%. And finally, we had an active quarter for capital management, repurchasing debt and equity as well as reaching an agreement to divest our U.K. Motor business.

The continued progress in the first quarter gives us confidence in the effectiveness of our strategic direction and our ability to generate strong and improving earnings and growth going forward.

I will discuss progression towards our priorities in a few minutes. But first, I'll turn the call over to David to review our financial results.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you, Fred, and good morning, everyone. Our first quarter results were very strong and represent a great start to the year, underscoring the effectiveness of our business diversification and the strength of our underwriting capabilities. Net income was $55 million or $1.22 per diluted share, in line with the prior year quarter. Operating income was $57 million or $1.27 per diluted share compared to $47 million or $1.05 per diluted share in the first quarter of last year. The combined ratio was 97% in the quarter compared to 98% in the prior year quarter. Catastrophe losses added 5 points to the combined ratio, in line with the prior year quarter, virtually all stemming from domestic business in both periods. The x catastrophe accident year combined ratio improved by 1 point compared to the prior year quarter, reflecting the strengthening underwriting margins in our domestic business.

As a company, we continue to improve our business mix. Our diversified footprint is evident from this quarter's results despite the severe winter weather we encountered in the Northeast. Catastrophe losses in the quarter were $59 million domestically, primarily due to record snowfall and prolonged low temperatures in the Northeast, especially in Massachusetts, that resulted in elevated claims for roof collapses, ice dams and associated water-related damages. Non-catastrophe losses also were elevated compared to longer-term averages. However, they were generally in line with the impact of the polar vortex that occurred in the first quarter last year, making underlying accident year results for the 2 periods generally comparable. Chaucer catastrophe losses were low this quarter, which helped offset the elevated weather impact in the domestic business.

Moving on to underwriting results excluding catastrophe losses. In Commercial Lines, through consistent pricing increases and mix management initiatives, we were able to drive roughly 1 point improvement in the loss ratio to 58%, led by workers' compensation and CMP lines. In commercial auto, the accident year ratio was unchanged compared to the prior year quarter. The underlying loss dynamics in the current quarter, however, were different from last year. Bodily injury was in line with expectations as we've seen some improvement coming from pricing actions and severity profile management. However, this quarter, we noted an increase in physical damage frequency, which we attribute to the heavy snow accumulation this winter.

Our recent experiences improved our confidence in this line. But overall, this business remains below target profitability and continues to warrant a cautious approach. In that regard, we modestly added to prior year reserves this quarter. We will continue to carefully monitor business mix and rate in relation to loss trends and react appropriately to further improve our profitability.

The underlying loss ratio in other Commercial Lines, which includes our domestic specialty business, improved compared to the prior year quarter and was 1 point better than the full year 2014 results. We're definitely seeing the effect of continuing business maturation, mix management and pricing actions. However, this was somewhat offset during the quarter by normal volatility in property lines, which affected the current year as well as prior year reserves due to late reported large property losses from the fourth quarter of 2014.

In Personal Lines, the underlying loss ratio for the quarter was 64%, 2 points better than the 66% in the first quarter of 2014. We experienced some improvement in the accident year loss ratio both in personal auto and homeowners, underscoring our underwriting initiatives. Rate increases in both lines are in the 5% range, which is comfortably above loss cost levels, providing confidence in our ability to generate further margin accretion.

Domestic expense results were as we expected. In Commercial Lines, we delivered an expense ratio improvement of over 0.5 point compared to the prior year quarter, reducing the ratio to 36%. This improvement reflects continued operating efficiencies and growth leverage, partially offset by mix shift impact of growing our specialty businesses. The Personal Lines expense ratio for the quarter remained relatively flat compared to the prior year quarter.

Chaucer delivered a strong performance with a combined ratio of 89% compared to 88% in the prior year quarter. Catastrophe losses were low this quarter at 1 point of the combined ratio, while favorable development was strong at 8 points, helped by the impact of foreign exchange on carried reserves.

In the quarter, Chaucer recognized $17.4 million of premium and an equal amount of loss reserves related to our reinsurance-to-close transaction, or RITC, that had no effect on underlying earnings and a negligible impact on the accident year combined ratio. However, this transaction increased the loss ratio by approximately 2 points and reduced the expense ratio by a similar amount. Excluding the impact of the RITC, the current quarter loss ratio would've been in line with the prior year quarter, while the expense ratio would've increased by about 1 point, driven by change in business mix and the impact of foreign exchange on overseas deposits.

Finally, I'd like to provide some financial details around the recent U.K. Motor announcement. The transaction will be executed through a 100% reinsurance arrangement for all prior claim liabilities and in-force policies, along with property sales and policy renewals. Upon closing, which is expected in the third quarter, our net reserves and invested assets will be reduced by approximately $350 million each. That's based on current exchange rates as these amounts will all be pound-denominated. The impact on earnings this year will be negligible, but the components of Chaucer's combined ratio will change going forward.

The U.K. Motor business produces a relatively higher loss ratio and lower expense ratio as compared to the rest of Chaucer's business. We anticipate that pulling this business out of the mix will result in a target expense ratio for the go-forward business of around 39% to 40%, up from 38%, which will be offset by a decrease in the overall expected loss ratio. Additionally, the transfer of invested assets at closing will result in lower net investment income in the future. The total consideration for the transaction is approximately $60 million. We expect after adjusting for related intangibles, accounting for the value of the real estate sold as well as transaction costs and other items, we will realize a gain on the transaction in the range of $30 million. The actual gain will depend on several factors, including the exchange rate at the time of closing.

Moving on. Consolidated net written premium growth for the quarter was 4%, driven by 8% growth in Commercial Lines and 2% in Personal Lines, partially offset by a 2% decrease in Chaucer, which includes a negative impact from foreign exchange of about 3 points. Fred will have more to say on our top line performance in a few moments.

Turning to investment results. Cash and invested assets were $8.6 billion at the end of the quarter, with fixed income securities and cash representing 90% of the total. Our fixed maturity investment portfolio has a duration of 4.2 years and is roughly 94% investment grade. The portfolio remains high-quality and well-laddered. We increased net investment income by 5% for the quarter to $70 million compared to $67 million in the prior year quarter. The low rate environment continues to place pressure on income returns. The earned yield on our fixed maturity portfolio was 3.64% in the quarter compared to 3.79% in the prior year quarter and 3.65% in the fourth quarter of 2014. However, we continue to expand our portfolio mix into non-fixed income security instruments, including commercial mortgages, partnerships and other assets. Together with higher cash flows, this helped to offset the yield pressure in the first quarter and should lead to a modestly higher net investment income in 2015 after considering the U.K. Motor transaction.

I'll finish with a few comments on the strength of our balance sheet and capital position. Book value per share grew 1.6% to $65.92 in the first quarter. Our total capitalization is $3.7 billion. Outstanding debt decreased to $841 million at quarter-end after we opportunistically bought back $62 million of debt during the quarter. The debt-to-capital ratio decreased 1.6 points to 22.5% from 24.1% at the end of 2014. In addition to debt repurchases, we also purchased about 219,000 shares of common stock for a total of $15.4 million since the beginning of this year.

Looking ahead, we will continue to actively evaluate opportunities to repurchase equity and debt, though our belief remains that capital is best deployed for continued business growth. Overall, our balance sheet position remains strong and provides a solid basis on which to grow our business.

And with that, I'll turn the call back to Fred.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Thank you, David.

As I noted earlier, we made solid advances on all our growth and earnings goals in the quarter. I will review how we execute on our priorities in each business, starting with Commercial Lines. Growth in the first quarter was strong at 8%. All our target segments grew at encouraging levels. We continue to shift our business mix toward higher margin segments while capitalizing on the momentum, the franchise value and the shelf space we have built with our partner agents. We are pleased with the traction we have established in Small Commercial business, which remains key to our long-term strategy. Our unique operating model allows us to cost-effectively target and underwrite both the point-of-sale and non-point-of-sale Small Commercial market. This model provides agents with the flexibility and efficiency to address the overall market. Our distinctive approach has enabled us to build preferred shelf space and gain access to an attractive part of the market with our agent partners.

We also gained momentum in the middle market segment. We are emerging as a leader within many of the vibrant target industry solutions, including in the manufacturing segment, where our growth is supported by strong expertise and helped by a recovering economy. The breadth and depth of our industry solutions is significant, giving us the ability to access some of the most attractive businesses and markets our agents service. I am very pleased with the current state of our portfolio and the improving performance.

In Specialty Lines, we delivered strong growth in the fourth quarter -- the first quarter, excuse me, led by management liability, professional lines and healthcare. Our Specialty capabilities provide a solid basis for profitable growth and further engaged with the agents who are looking for a carrier that can cover a broad spectrum of specialized needs in the smaller account space. Our insight into these markets and our distribution alignment gives us the opportunity to grow these businesses in a very targeted way with our partners.

The Commercial Lines market remains competitive but rational. We achieved pricing of 6.6% core commercial businesses, slightly down from the fourth quarter, while increasing retention by 1.84%. Our targeted approach to pricing continues to give us confidence that we are improving the quality of our book. While rates have come down in the overall market, the pricing in our target markets has maintained some stability, and we remain confident that we'll be able to achieve the price increases we need to meet our targets. Underlying -- underwriting profitability in Commercial Lines improved, reflective of the business mix changes and pricing actions. Although the bulk of our exposure work was completed in 2014, we continue to make targeted underwriting adjustments in our portfolio and are taking rate and non-rate actions to improve our portfolio in areas such as commercial auto. In addition, the maturation of our newer businesses and geographies as well as our growth leverage has helped us deliver the expense ratio improvement we expected.

While our results in the first quarter were lower than expected due to elevated weather losses, our Commercial Lines business is in a very strong position. We remain on track for additional improvement and to deliver our goals, and we are maintaining good market momentum that should drive us to achieve additional profitable growth going forward.

Turning to Personal Lines. The growth momentum we established at the close of 2014 continued into the first quarter, generating a 2.3% increase in net written premium. The rates were up about 5% for the quarter, and we expect we will be able to hold rates at this level through 2015. We also increased retention in the quarter to 83%. Retention will continue to improve compared to the prior year, driven by the shrinking effect of our exposure management, the impact of our growing account mix and the penetration of our Platinum product.

We continue to focus on the value account segment, and 79% of our premium comes with full accounts in our current book. The Platinum Experience offering is improving the composition of our book to take that business even further with higher proportion of accounts, higher umbrella penetration and better retention.

This premium account product is still in its launch phase and is relatively new to the marketplace. In March, we launched Platinum in Georgia, our 16th state, and the response has been very positive. With 13% of our premium written in Platinum, this offering now represents a more meaningful part of our Personal Lines business. Looking ahead, we will continue to make investments in our Platinum platform to help drive improved profitability and growth that will benefit us over time.

Turning to Personal Lines underwrite performance. The combination of recent exposure management efforts in pricing and the improvement of the overall book drove a solid underwriting profitability lift in line with expectations.

At Chaucer, as we discussed, our premium was down slightly due to market conditions. And as long as the market conditions remain challenging, we'll be very selective and cautious in our growth in this segment. We continue to leverage our strong market position and underwriting capabilities to allow us to maximize the profitability of this portfolio and deliver strong earnings. Our focus on optimizing our business portfolio led us to announce the exit of the U.K. Motor business. This transaction allows us to direct our focus on the international specialty market, where we have deep skills and expertise. We believe over time, given the strength of the business, Chaucer will provide significant growth opportunities for The Hanover, and we will continue to invest in this business. But in the short term, growth will likely be limited.

To summarize, we are pleased with the first quarter results. We will continue to work on enhancing our underwriting performance and on building upon our portfolio and market position to drive profitable growth. The product and business mix will be paramount as we grow at targeted areas and gain additional shelf space and depth with our agent partners. We feel good about our progress we made in the quarter. And in this respect, we remain on track to deliver an EPS for the year in the range of $5.70 to $6 a share, assuming catastrophe losses normalize to 5% for the full year, consistent with our previous guidance. Operator, can -- if you can please open the lines for questions?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Christine Worley from JMP Securities.

Christine Amanda Worley
JMP Securities LLC, Research Division

Just sort of focusing on the sale of the U.K. Motor book. I know that you said that your desire is to focus more on the Specialty side of Chaucer. But just sort of -- can you give us some thoughts around your decision to the timing of the sale of the book now, and sort of how you're thinking about that?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, we actually -- since we've purchased Chaucer, obviously, we've had really good success, and we've been able to grow our Specialty businesses quite significantly. And so it was in light of the fact that we're having success in really in the core areas that we were focused on. That we look at that business and said that is more of a flow business and more of a -- in some ways, a commodity business. And we felt that the investment required to kind of grow that business was really not at the heart of what we were trying to do as part of our portfolio. It had outperformed its competitors over a long period of time, so it wasn't a difficult thing for us to find somebody interested in it. But we just felt it wasn't really the focus of us at this time.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay, makes sense. And do you have any plans for the capital that this sale frees up?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes. Well, I think as Fred described, Christine, I mean we'll look at other opportunities in the Chaucer book to use some of that capital, although it's a tough market as we've described. But in the context of our overall capital plan, the amount of capital being freed up is not significant. And I would tell you, we did some things in this quarter that was a little more active than we'd anticipated as well with some of the debt buyback as well. So I think overall, I'm comfortable where we are from a capital perspective. And we have plenty of opportunity to grow our businesses in other areas, and we'll deploy capital as and when we need it. And we if we need additional capital, we have plenty of opportunity to raise capital, if that's required.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay. And sort of sticking on capital for a minute, you guys have reported some pretty decent earnings growth over the last couple of quarters. And I know your primary focus is funding growth. But how do you prioritize deploying capital after that, with regards to share repurchases or paying down debt?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

I think it's in some ways it's almost equally weighted in the fact that we're trading above book. And I think I made this comment maybe at the last call. For the most part, we've always deployed excess capital on share repurchases when we were trading below our book value. But now that we've come above it, it sort of equalizes some of the benefit of going -- looking at some of our debt retirement. And as you know, some of our debt is higher rated or carries a higher interest rate than current market rates are. So when we get rid of some of that legacy debt and have the opportunity to do so, we will take that advantage.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. And I think what you've seen in our track record, we don't tend to want to hold a lot of excess debt. We've been very successful with the rating agencies, we expect we will continue to be because we have great capital base and depth. But we're pretty active. Well, we believe that we have some excess, and we've been proactive about opportunistically looking for opportunities to deploy, and we'll continue to do that.

Christine Amanda Worley
JMP Securities LLC, Research Division

Okay, great. And then my final question, just turning to the workers' comp. You guys put up some decent growth this quarter. Where are you seeing the best opportunities in that line?

John C. Roche
President of Hanover Agency Markets

Yes, this is Jack Roche. I think we continue to expand our Small Commercial penetration with agents across the country. And in particular, sectors like our technology business and other attractive areas, so that leads our growth. And as we get more mature in more territories, that in the workers' comp line of business and continues to improve overall, we're finding more opportunities to round out accounts and drive profitable growth in the workers' comp line.

Operator

Your next question comes from Joab Dempsey from KBW.

Joab Dempsey
Keefe, Bruyette, & Woods, Inc., Research Division

My first question is sort of more big picture in nature. With many of your peers discussing the ramp-up in market competition, translating to finding fewer business opportunities that meet their target returns, could you possibly provide some color on how you guys have been able to go out, find new business particularly around some your industry-focused products?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, Joab, that's a great question, and we've talked about this in the past. But our strategy -- the difference between our strategy -- and our distinctive is the marketplace shows up at this type of the cycle.-- this time of the cycle, right? Because what you're seeing as price increases come down and people's retention goes up, less business is disrupted. So for those that have a strategy of waiting for the phone to ring, if you will, when things are shopped, you're going to see a decrease in good business and, frankly, a risk when you look at the quality of the stuff that goes into the marketplace. Our whole approach to the market is a lot different. We have a lot fewer agents, we have a lot more information about market opportunities and we're a lot more proactive, working with the agents to do what we call pipeline, so that we identify where the opportunities are, work with them to actually pipeline and have the business be submitted to us, right, and for us to look at. And if you think about -- to Jack's point, on the rounding out, what's happening now is people like the way our approach to business is, and they're rounding out their Small Commercial business with us, whether it's point-of-sale, non-point-of-sale or full account. And in Specialty, where they like to have fewer markets in more direct contact, they're finding pockets of their business to kind of let us look at it together and direct to us. So I would say is we feel pretty good about our ability to consistently kind of grow the business and thoughtfully grow the business at the right price and be able to really make our mix better and better and better. So we feel fortunate right now that we have some momentum like that, and I think it'll continue. Again, I said at the beginning of the year, if you look at January, for those that are kind of have thousands and thousands and thousands of agents and all they do is they kind of wait for the market to come -- the business comes to the market. What you're seeing is the quality, in general, of stuff that just get shopped is going to be less just because it's the way of the environment -- the pricing environment is. And we don't really rely on that kind of business acquisition. So again, we feel good about where we are. I don't know if any of the guys want to comment.

Andrew S. Robinson
Former Executive Vice President of Corporate Development and President of Specialty Insurance

Well, the only thing -- one thing I would add, this is Andrew, there is a couple of pockets where we are seeing some disruption, and I think we're very well positioned to capitalize on. So health care is one of those categories where a couple of the sort of traditional lead markets in the Specialty domain around, for example, allied care and long-term care. Enough disruption's happening in the market and creating some very interesting opportunities. And I think the other thing, just to build on a point that Fred said, we -- I think, between Specialty and Small Commercial, we've done so much to be able to deliver a number of our Specialty capabilities through our service center that, that is a distinct advantage. And we're using that certainly to grow some of our Specialty businesses as well. So there's -- there are things that are both happening in specific areas from a disruption perspective. But also, I think there are things that we're doing that are unique enough, that are for us, really distinctive growth drivers. And quite honestly, I think we -- we'll continue to see that for some numbers of quarters.

Joab Dempsey
Keefe, Bruyette, & Woods, Inc., Research Division

Great. It's very helpful. The second question, switching towards the -- to the winter weather in New England this year. With winter storm losses, sometimes you get a bit of a tail on those claims. Any sense, based on claims volume either slowing down or still coming in over the last few weeks? Whether any of this will taper off through the second quarter? Or do you feel like, at this point, you've got a real clear picture of the ultimate exposure?

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, I think we have a pretty good -- it's a clear picture. I think that unlike maybe kind of hailstorms, frankly, winter weather is a little bit more distinctive, right? You have the freezes, the ice dams and -- and so we have a pretty good sense -- we have a very good sense of what the losses were and the nature of the losses. So I feel pretty good that we've kind of identified and quantified it appropriately.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Absolutely. We did -- we see some coming through, but not dramatically off of expectations and sort of even a little bit better from a severity perspective from what we had expected. So yes, I think we have a good handle on it.

Joab Dempsey
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, terrific. And then just my last question on the personal auto side. As your core loss coming down, which is great to see year-over-year. Obviously, there's a lot of moving parts this quarter. But it seems like loss cost inflation might be ticking up a little on that line for the industry. First, are you seeing that? And to what extent should we be thinking about the winter weather moving, driving activity and loss cost around a bit?

Richard W. Lavey
Chief Growth Innovation Officer

Yes, this is Dick Lavey. So great question. Interestingly, in our book, we -- the headline, as feel our lost cost ticks of 3, 3.5 is exactly right on what kind of what we're experiencing. There's been some questions on prior calls around severity and frequency, and we are not seeing the uptick in frequency that perhaps others are. I know there's been questions around gas prices going down, is that going to lead to increases in frequency and we're seeing the opposite. Severity is up. We have seen that in the last few of quarters, so -- and we attribute that to sort of the change in technologies being put in cars these days. Our model year is increasing. So we seeing newer models -- excuse me, and more European imports. So as you'd expect the severity would increase. That $500 fender bender now is a $1000 fender bender, $2000 to repair some of the technologies. So on balance, we actually feel loss costs are in line with what we have in our plans. I think we're fortunate with the niche market strategy that we pursue in Personal Lines. So we are -- I think we're in good shape.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes, and I think -- it's actually quite quiet in total rate. And if you look at the stability of our book, right, it keep -- grows every day. So we're feeling very good about the loss trends. And our pricing, as I say, we have pretty good transparency because of the way that book gets filed in our growing retention. So we think over pretty significant periods here, we're going to have pricing about -- or any of the potential loss trends that we'd have in that book, so we feel good at that -- good about them.

Operator

[Operator Instructions] Your next question comes from the line of Dan Farrell from Piper Jaffray.

Dan Farrell

Just a question on both Commercial and Personal Lines. I was wondering if you could comment on what your assumption is for loss cost inflation? And where does that compare right now to the pure rate component of your renewal pricing, that you guys disclosed?

John C. Roche
President of Hanover Agency Markets

Well, this is Jack. I'll start on the Commercial Lines side. I think -- and I'll speak primarily about the core Commercial Lines. Because as we said in the past, some of the specialty lines are a little bit more challenging to answer those questions directly. So we have said for some time that we take a longer-term view on loss trend. That number for us is somewhere in the 3.5- to 4-point range. You could look at short-term trends and come up with a slightly lower number than that. But we believe that, that 3.5 to 4 is still the right number to keep it in mind as we're pricing our business. And so with that, what you can see is that we've been achieving some slightly above market pricing. That we believe when you factor in the exposure related to property increases or property insurance to value plus our rate, we're still achieving 1.5 points to 2 points above our long-term loss trend.

Richard W. Lavey
Chief Growth Innovation Officer

And this is Dick Leavy, on the Personal Lines side. As I mentioned, we see lost cost trends in the 3 to 3.5. And the price, as Fred mentioned, that we're achieving in our book is 5, both in home and auto. And so we're 1 point to 1.5 points ahead of those loss cost trends. And that's what we see continuing going forward.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

And you know this, Dan, because on our property areas, you can actually add to that a little bit in both of those answers. Because when you get exposure, our ITB value increases, our inflation value increases, because you don't have all the net losses, right? That also is effectively prices. So we feel very good about where we are and we'll be kind of through the rest of the year.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

And so as we think about this couple going forward, we'll acknowledge that we don't live in a different market than our competitors. And so as we see the dialogue that you all are having with others in this market that we'll acknowledge that. There continues to be some modest pricing deceleration in the Commercial Lines business. But we believe we'll continue to kind of outperform, if you will, based on the 3 dimensions we talked about in the past. And that is our average premium size is a full octave lower than many of the people that report out to you guys, our product distinctiveness that we built over several years is starting to prove very beneficial. Most agents don't want to go market with our renewals if they don't have to. And last but not least, our distribution strategy is very limited and very specific. So again, we have a little bit more control and a little bit more dialogue with our agents about our renewal pricing, and we think that is paying dividends today.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

Yes. And we think of -- Dan, one last point. We think of Small Commercial a little bit like Personal Lines. So we've got -- we go region by region. And I think you'll see us -- there might be some movement we take down a little bit, given the profitability of the book and where we are by region. But we feel -- as I said, I keep coming back to the same point. I think we feel very confident that we'll continue to lead [ph] price in a way that's going to continue to drive improvement in our book.

Dan Farrell

That's all very helpful. And then I just want to ask on commercial auto. And I apologize if you've touched on this in your remarks, I was a little late getting on the call. But you guys, I think, are obviously still staying pretty cautious on that line. I've seen a number of other competitors that have had some concern about trend there. But we are getting a lot of rate in that line now, for a while. I'm wondering what your view is how much longer it might take for either you or the industry to sort of get a handle on this line and sort of get -- turn the corner?

John C. Roche
President of Hanover Agency Markets

Yes, thanks, Dan. This is Jack again. I think in the industry, I think you're going to continue to see quite a variety of results, because some got to it sooner or some diagnosed the situation differently. For us, you know we've been at this for 3 years. It's been a bit of a moving target in terms of when would the BI severity levels level off. We are cautiously optimistic that we are seeing the severity itself level off and even in some pockets start to improve. Some of that's different driven by the fact that we've taken some fairly substantial underwriting actions, particularly in the major metro geographies. So that alone starts to drive your BI severity levels in the downward direction. But to your point, we've been achieving price over loss trend for several quarters now. It -- the auto line leads our pricing right now in the upper single-digits. And so I can say we're cautiously optimistic that the improvement that we're expecting and that is appropriate is going to start to show through.

Frederick H. Eppinger
Former Chief Executive Officer, President and Director

And I would tell you, one other thing to your point, Dan, it's because some people are a little bit late, I think, to recognize, the market is still receiving the price right now, right? So for us, that's a good thing, right? There is really -- the market has kind of moved. And I think we are ahead of it, so there's some room here to continue to push so...

Operator

I would now like to turn it back over to Oksana for closing remarks.

Oksana Lukasheva
Vice President of Investor Relations

Thank you, all, for joining our call today, and see you next quarter.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.