S&P Capital IQ

CONTENTS

Selective Insurance Group, Inc. NasdaqGS:SIGI

FQ2 2015 Earnings Call Transcripts

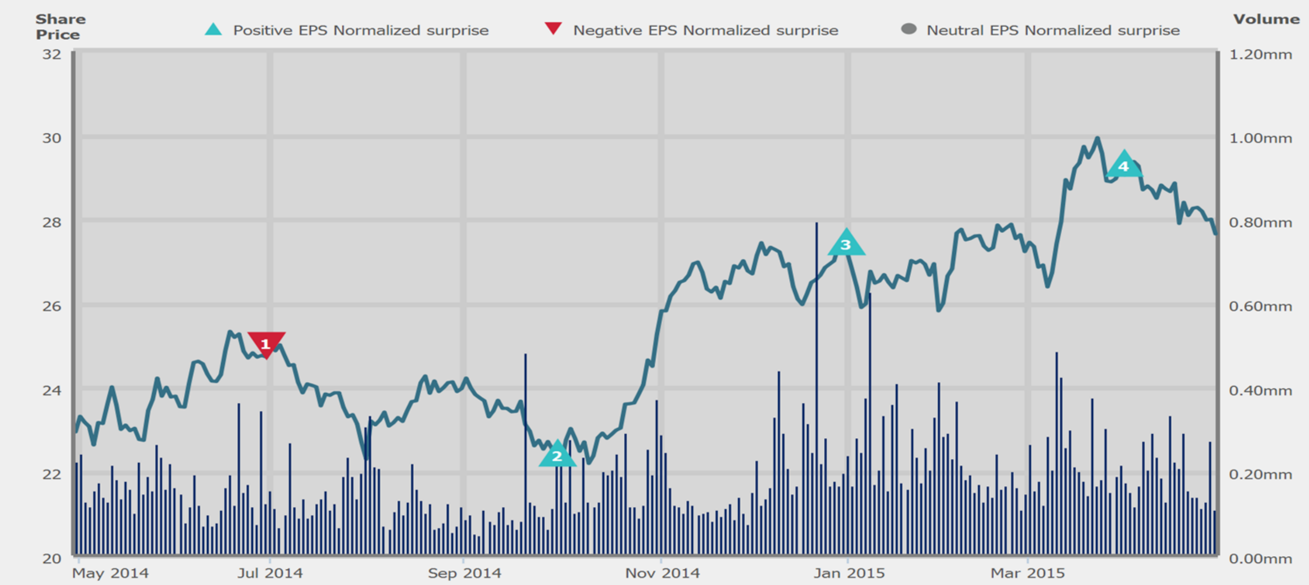
Thursday, July 30, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.62	▲6.90	0.61	2.38	2.50
Revenue (mm)	-	-	-	-	-	2180.62

Currency: USD
Consensus as of Jul-08-2015 5:29 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	0.49	0.46	▼1 (6.12 %)
FQ3 2014	0.51	0.76	▲2 49.02 %
FQ4 2014	0.66	0.72	▲3 9.09 %
FQ1 2015	0.45	0.48	▲4 6.67 %

Call Participants

EXECUTIVES

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Gregory E. Murphy
Chairman and Chief Executive Officer

Jennifer W. DiBerardino
Former Senior Vice President of Investor Relations

John J. Marchioni
President and Chief Operating Officer

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Michael Zaremski

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good day, everyone. Welcome to the Selective Insurance Group's Second Quarter 2015 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, Ms. Jennifer DiBerardino.

Jennifer W. DiBerardino
Former Senior Vice President of Investor Relations

Good morning, and welcome to Selective Insurance Group's Second Quarter 2015 Conference Call. This call is being simulcast on our website, and the replay will be available through September 1, 2015.

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.

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

As a reminder, some of the statements and projections that will be made during this call are forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. We refer you to Selective's Annual Report on Form 10-K and any subsequent Form 10-Qs filed with the 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 me today on the call are the following members of Selective's Executive Management Team: Greg Murphy, CEO; John Marchioni, President and Chief Operating Officer; Dale Thatcher, CFO; and Ron Zaleski, Chief Actuary.

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

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Thanks, Jen, and good morning. We're very pleased with the results posted this quarter, which reflect the benefits of the strategic underwriting and claims initiatives we've implemented in our insurance operation.

For the quarter, we reported operating income per diluted share of $0.62, up from $0.46 a year ago. Our statutory combined ratio for the quarter was 93.5%, improving from 97.5% a year ago. The underlying combined ratio, excluding catastrophes and prior year casualty development, improved by 2.7 points to 92.7%.

CAT losses for the quarter were 4.9 points, in line with our second quarter expectations and lower than the 5.9 points reported a year ago. Non-CAT property losses were 1 point above expectations in the quarter, but 1.3 points lower than second quarter 2014.

Favorable prior year casualty reserve developed in the quarter was $20 million or 4.1 statutory combined ratio points compared to $17.5 million or 3.8 points a year ago. The favorable development is related to the benefits of our underwriting and claims initiatives of the past several years, while our overall reserve position continues to be very strong.

In the quarter, overall statutory net premiums written grew by 11%, driven by steady retention levels, higher new business written and renewal pure price increases.

Standard Commercial Lines premiums were up 13%, benefiting from renewal pure price of 3%, steady retention of 83% and a new business increase of 39%.

For the quarter, this segment generated a statutory combined ratio of 90.1% compared to 95.5% a year ago. The improvement was driven by earned rate exceeding expected loss inflation, favorable reserve development and lower non-CAT property loss.

Including 11.3 points of favorable development, workers' compensation reported an 89.2% statutory combined ratio in the quarter, improving approximately 23 points from a year ago. This favorable development is largely attributable to continued lower-than-expected frequencies.

We also continued to see a decrease in severity resulting from a claims initiatives we have instituted to address workers' comp results.

General liability also reported strong profitability, with a 77.6% statutory combined ratio. [indiscernible] line benefited from 13.4 points of reserve releases, also largely driven by favorable claim frequencies. Earned renewal pure price increases exceeding expected loss inflation have also contributed to the improvement.

Standard Personal Lines statutory premiums declined 3% in the quarter as targeted nonrenewals and lower new business impacted production. Retention remained at 82%, while renewal pure price continued to be strong at 6.7%. The Personal Lines statutory combined ratio was 105.4% for the quarter, including 11.5 points of catastrophe losses. In the prior year period, the statutory combined ratio was 106.1%, including 17.1 point for CAT losses.

Homeowners reported a combined ratio of 114.3% in the quarter compared to 124.5% a year ago due to lower CAT activity. On an x-CAT basis, the combined ratio at 90.7% was essentially flat compared to 90.5% in the second quarter of 2014. Renewal pure price in this line remains strong at 9.2%.

The personal auto combined ratio in the quarter was 106.4%, up from 100.2% a year ago. This quarter, no development was recorded in this line compared to over 5 points of favorable prior year casualty development in the second quarter of 2014. Renewal pure price for the quarter was 4.4%.

Excess and Surplus Lines continue to generate strong growth with a 20% increase in statutory net premiums written. The E&S statutory combined ratio in the quarter was 102.7% compared to 99.9% in the second quarter of last year.

Adverse prior year casualty reserve development of $1 million added 2.4 points to the combined ratio this quarter. We successfully completed placement of our July 1, 2015 excess of loss reinsurance treaties, which now include coverage for our E&S business. We renewed both the casualty excess of loss and property excess of loss treaties with some enhancements in terms and conditions and the same structure is expiring. The casualty excess of loss treaty provides $88 million of coverage in excess of $2 million retention, while our property excess of loss treaty provides $38 million of coverage in excess of $2 million retention. Rates on the program were reflective of the soft conditions in the reinsurance market.

Moving to the investment portfolio. After-tax net investment income declined to $25 million for the quarter from $27 million in the second quarter of 2014. The decline was largely driven by lower interest income from a fixed income portfolio and lower returns from the alternative portfolio. The alternative portfolio continues to be impacted by the portfolio's exposure to energy exposed limited partnerships, which report on a 1-quarter lag. As a result of lower alternative investment income and the continued low interest rate environment, our after-tax portfolio yields declined to approximately 1.9% from 2.3% a year ago.

Year-to-date, the after-tax new money yields have averaged 1.6% as we continue to invest in high-quality fixed income products. Operating cash flow has increased this year, while new money yields remain below our 2% expectation for full year 2015. Our fixed income portfolio continues to be highly rated with an average credit quality of AA- and a duration of 3.7 years, including short-term investments.

Within the overall portfolio, the pretax unrealized gain position decreased to $71 million from $128 million at the end of the first quarter. The pretax unrecognized gain position in the fixed income held-to-maturity portfolio was $11.8 million or $0.13 per share on an after-tax basis.

Equities of 5% of investment assets in the portfolio continues to be limited to U.S. listed securities, which generate after-tax dividend yields of 3.4% on average.

Surplus and shareholder's equity each ended the quarter at $1.3 billion, while book value per share increased 2% from year end 2014 to $22.95. Annualized operating ROE was 11% in the quarter, which is above our weighted average cost of capital of 8.6%.

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

John J. Marchioni
President and Chief Operating Officer

Thanks, Dale. For the quarter and for the first half of 2015, our insurance operations have performed extremely well.

For the first 6 months, we had an overall statutory combined ratio of 93.2% and x-catastrophe combined ratio of 88.1%, and net premiums written growth of 10% as we leverage our strong position in the marketplace to profitably grow our business.

New commercialized business growth has been very robust year-to-date, increasing 34% as both submission and quote activity increased compared to last year.

In fact, $90 million from new business production in the second quarter was an all-time company record for new business booked in a single quarter. We attribute this success to strong distribution partners working with our empowered Agency Management Specialists, or AMSs, as we continue to benefit from the ramp up of 12 new AMS territories added at the end of 2014. We closely monitor the quality and pricing levels of new business and remain very comfortable with both.

On the renewal portfolio, we continue to balance rate and retention by providing our underwriters the tools they need to make informed decisions. For the first half of the year, Standard Commercial Lines retention remained strong at 83%, and renewal pure price was 3.3% on a written basis.

For our highest-quality Standard Commercial Lines accounts, which represent 55% of our premium, we achieved renewal pure rate of 2.1% and point-of-renewal retention of 91%.

On our lower quality accounts, which represent 9% of premium, we achieved pure rate of 7.8% and point-of-renewal retention of 80%, which offers an opportunity moving forward to push for additional rate even if retention levels decline on that segment.

Having this level of pricing sophistication is critical to be successful on the competitive market. Competitive pressures are increasing, but the market seems to be rational as the low-interest rate environment dampens overall returns and pressures companies to generate better underwriting margin. No P&C company is immune from declining yield, making disciplined pricing in the marketplace more important than ever. As a case in point, the CLIPS survey for the first quarter of 2015 showed commercial renewal pure pricing remained positive at 2% versus a 3.5% Selective report in the first quarter, and we achieved second quarter renewal pure pricing in line with expected loss inflation.

We are earning renewal price increases about 140 basis points above expected loss inflation. In addition to rate, our underwriting claims initiatives also contributed significantly to our profitability improvement as the benefits of these initiatives work their way through underwriting results. In particular, we are very pleased with the progress we have made on our workers' compensation line of business.

In workers' comp, we are targeting specific classes of business for reunderwriting and increasing our mix of lower hazard-grade business. We are seeing significant improvements in claims outcomes as a result of our strategic case management unit, workers' comp escalation model and fraud detection and recovery model. Our results are ahead of our expectations, so we are revising our 2015 guidance to now achieve a combined ratio in workers' comp of under 97%.

Growth in our Excess and Surplus Lines business has been very robust year-to-date, with a 23% increase in net premiums written, which is largely attributable to new business growth of 39%. The recent implementation of a new rater is a key factor in driving new business. We are comfortable with new business pricing levels, while there are targeted segments in the renewal inventory where we would like to drive more rate.

As we roll out the pricing analytic capabilities for E&S that we have successfully implemented in our Standard Lines, we expect renewal pricing to move closer to targeted rate levels and E&S profitability to be more in line with Standard Commercial Lines.

Growth in Personal Lines year-to-date has been negatively impacted by the ongoing strategic nonrenewal of underperforming business and a decrease in new business. While dwelling fire on nonrenewal started at the beginning of 2014, New Jersey, which represents the biggest part of our dwelling fire book, began non-renewing policies in July. The positive news is that we are experiencing a stabilization in Personal Lines retention.

We are optimistic about the improving take-up rate in the Selective Edge product and believe that this business will ultimately perform and retain better than the non-Edge business.

In the second quarter, 17% of our automobile new business was in the Edge product. For homeowners, 23% of new business was issued with it. Effective July 1, we rolled out enhancements to the Edge for auto, including diminishing deductible, accident forgiveness, newer car replacement, and selected choice replacement cost. These enhancements to the Edge product line up nicely against our key competitors. We are very pleased with our overall insurance operations performance and believe we have the momentum for further improvement.

Now I will turn the call over to Greg Murphy.

Gregory E. Murphy
Chairman and Chief Executive Officer

Thanks, John, and good morning. The strong results delivered to-date demonstrate the hard work accomplished by our employees and distribution partners to achieve profitable growth.

Year-to-date top line growth of 10% reflects the additional Commercial Lines production capacity we've created to grow our middle-market business through the expansion of our small-business teams and increasing the number of AMSs. These measures provide us with Commercial Lines new business capacity exceeding $400 million. We are confident that we can leverage our business model to achieve this level of high-quality premium production, while maintaining profitability through the use of our sophisticated underwriting tools that drive pricing discipline.

Selective's organic Commercial Lines growth opportunity is significant by increasing our market share through the expansion of distribution partner market share and share of wallet. As we increase our distribution force, over time, to represent 25% of the market share in each state, a $2 billion premium opportunity will be created, increasing share of wallet within our distribution force to about 12% will generate another $1 billion of premium opportunity.

Year-to-date, E&S net premium written growth of 23% was driven by new business, which increased 39% to $47 million. The growth is coming primarily from contracting, habitational and mercantile service sector. At a recent E&S Producer Council meeting, our distribution partners told us that the new rating system implemented earlier this year is very easy to use and helps facilitate the flow of business. Our renewal pure price increases year-to-date were 3.8%, which was above our expected loss inflation of 3%. Use of our Dynamic Portfolio Manager tool to balance rate and retention on account level resulted in Commercial Lines renewal pure price increases of 3.3% for the first 6 months. Personal Lines rate was strong at 6.8% with homeowners achieving 9.5% rate increases.

Our E&S price increases were below expectations of 1.5%, however, we anticipate driving more rate in the next 2 quarters. With our ongoing success in increasing rate in Commercial and Personal Lines, we expect to achieve overall renewal pure price increases of just below 4% in 2015.

The Commercial Lines marketplace is in transition, as P&C carriers with profitability are aggressively pursuing new business opportunities, while less profitable companies are trying to improve their combined ratios. Many of these companies do not have sophisticated underwriting and pricing tools necessary to granularly price and identify underperforming business, which makes the renewal inventory vulnerable as they attempt to socialize rate changes.

The industry pressure on underwriting performance is intense due to the low-interest rate environment. The industry expected ROE from its investment portfolio is approximately 6 points, and we believe the industry-wide book yield will continue to be under pressure for the next 3-year period. To compensate for lower ROE contribution from the investment income, companies will need to be forced to generate profitable combined ratios. We feel we have an advantage in this environment with our underwriting and investment leverage as well as the superior underwriting and pricing tools we use to manage and monitor profitability at a very granular level.
As we reflect on the strong first half results and our expectations for the second half of the year, we offer the following 2015 guidance: statutory combined ratio of 90%, an improvement from the previous guidance of 91%, excluding catastrophes and any further prior year casualty reserve development; catastrophe losses of 4 points; after-tax investment income revised from a $100 million to a range of $95 million to $100 million; weighted average shares of 58 million. Now I'll turn the call over to the operator for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question today comes from Scott Heleniak of RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Just wondering if you could touch a little bit more on the Commercial Lines growth is up double digits, which was nice. And the -- and you talked last quarter and this quarter again about the new AMSs and the new agents. But wondering how much of the growth is actually coming from just getting more business, gaining share with your existing agency base as well. I don't know if you could touch on that a little bit.

John J. Marchioni
President and Chief Operating Officer

Scott, this is John. I could start and then Greg can certainty jump in. We don't separate out the growth -- we don't disclose the growth between new stores, new storefronts and existing storefronts. We monitor that internally and our regions plan in that regard. And you would attribute in most part, but not entirely, the growth from the existing storefronts to track with growth with existing AMSs. Now the new AMS territories we've created aren't entirely new agency appointment. They've got some of the existing agency moved, but there's clearly, the combination of those 2 factors: the addition of AMSs, the ramp up of new agencies as well as better penetration of existing agencies, which we track between business they control and business that's new to the agency are all driving that increase in new business. Now as Greg indicated when he reference the capacity number, we think we have additional capacity with the resources, the agent and the appetite and product portfolio we've got deployed. So we continue, again, assuming the market continues to be rational. I think that there's more upside for us in each of those areas.

Gregory E. Murphy
Chairman and Chief Executive Officer

Yes, I would say, Scott, again, when you look at our production, obviously, and John went through it in his prepared comments, the addition and the strength of the small business team and the staffing levels that we focused on that are creating more throughput from our agency base on a more consistent basis. And then adding another 12 AMSs is just providing more middle-market opportunity. So the immediate focus is around share of wallet and then we will follow that through market share expansion, through additional distribution, and that takes a little bit longer. That's a little bit slower developing as you add new agents on. And we've done that, we've increased our agency count now to -- we're now sitting at 1,130, and that's up a few. So I think it's like John said, more of it is coming from share of wallet at this time. And I believe that's where you'll continue to see it. And then over time, you'll see more migration and more addition of new business coming from new agency distribution.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay. And I know you mentioned, I think this is just E&S about the contractors' class. Are you seeing growth ramp up in there as well in Commercial Lines? Because I know there had been a big line for you guys in the past. And is that something that's starting to come back as well?

John J. Marchioni
President and Chief Operating Officer

Yes, we're seeing strong growth -- we're seeing strong growth across the board in all of our strategic business units, industry verticals and Standard Commercial. But clearly, contractors has rebounded a fair amount across our footprint. We continue to focus on being more diversified in our new business than we have in the past, but we're seeing strong growth for open contractors in both Standard and Excess and Surplus lines. And we view that as a class that we've been very successful in terms of growth and profitability in the past, and we also view that as a class that helps diversify our catastrophe exposure because it's a very casualty-driven class of business, but that has certainly come back.

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

There's also an embedded growth capability just within our existing contractors. And that as the economy got worse, the contractors shrank and eliminated employees. And now as the economy has begun to show a little bit of a spark, you do see some addition of employees, so you're seeing positive audited endorsement premium with the existing [indiscernible] some definite growth out there across the board.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

All right. Exposure growth. Got you. And then on the expense ratio, I noticed that that ticked up a little bit. That was mostly in E&S. So I was wondering if there is any kind of one-timers in there. Just what sort of drove that because would have thought there'd be some leverage and that would probably start to improve?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Yes, in the E&S, you see a little bit of an uptick as we reevaluated some of the longer-term agents' bonus compensation there and had to book some additional dollars into that. But remember, E&S traditionally runs at a little bit higher rate. Anyway, if you look at our peer group, they're running at about a 34.7 kind of range, and so it's we're not too far off of what is expected within the E&S realm. But yes, there is a little bit more in this particular quarter.

Gregory E. Murphy
Chairman and Chief Executive Officer

And the only thing I would add. This is Greg. Obviously, we saw an elevation in the pension cost in 2015 over 2014, which will add approximately $8 million to our overall expense level. That's split in between both LAE and underwriting, most of it being in the underwriting side. And I view that as just a reflection of low discount rate that we got this year. So there was a big pop this year. And then I would say just to dovetail into Dale's comments, we are, as a result of higher level of profitability and the way we compensate our agencies on profit sharing, there's a 1-year and 3-year component. So the 1-year is obviously solid year and then the 3-year performance continues to improve as well. So again, our goal is to compensate our best performing agents for the relationship and the profitable business that they share with us. And remember, when we demonstrated our 2015 plan with you, we actually showed expense ratio in that plan going higher as a result of the pension, higher compensation to employees and agents as well as some of the ongoing IT investments we continue to make.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, that's fair. And then, I think, John, you made a comment about the E&S combined ratio over time getting better and sort of getting toward the standard, closer to standard market combined ratio. Is that something that you'd expect to see signs of that in 2016? Is there anything left -- any initiatives you have left to sort of get where you need to be profitability-wise there?

John J. Marchioni
President and Chief Operating Officer

Yes, so we haven't put out guidance, overall, for '16 or by individual segments. But what you have in that line is about 2.5 points in the current year or prior year adverse development. And as we indicated, we see the opportunity that you're referencing coming in some targeted areas on the renewal portfolio that need to be addressed through more aggressive rate and/or nonrenewal actions. That's where that management team is focused. We expect that to start to move through their performance relatively quickly. And our expectation is that all 3 of our segments in the relatively near term, deliver to our target return on equity.

Gregory E. Murphy
Chairman and Chief Executive Officer

And the only other thing I would add to that, too, obviously, how we process our claim activity in there. So it's an entire section that's being visited by our corporate claim group, and that's now folded under that operation. And just like you saw us manage, whether it's comp or how we're looking at our GL, and what we've done in GL and commercial auto. We're going to provide that same level of discipline, and I think there's opportunity on the claims side regarding lowering our cost of goods sold, and that's both on the LAE side as well as the loss side.

John J. Marchioni
President and Chief Operating Officer

And if I could just add as well. Remember, that, that business has a much lower retention level typically than Standard business. So new business pricing levels are equally important, and we measure that closely as well. So that mix will continue to improve based on what we're seeing new pricing levels on that segment.

Scott Gregory Heleniak
RBC Capital Markets, LLC, Research Division

Okay, and finally, surprised to not hear any commentary about M&A. So I thought I'd just throw it out there. You guys entered -- you did -- M&A entered E&S a couple of years ago through M&A. Just if you'd give an update on how you're viewing M&A? And what kind of impact you might experience from some of the M&As that's going out there?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

I'd say, clearly, it is a frothy marketplace right now in terms of M&A. We are always looking at opportunities, but obviously with the full prices that are occurring out there in the environment, it probably somewhat lowers the likelihood that we would be a successful bidder since we're not inclined to overpay for any enterprise. So we are watching with great interest as everybody who is a student of the insurance marketplace. It's quite fascinating.

Gregory E. Murphy
Chairman and Chief Executive Officer

And I would add to all this, consolidation inside our distribution plan, I think, provides Selective with some unique opportunities and because we are -- we've got a lot of agents that want to up their market share. Their share of wallet, as we like to refer to it, with Selective and consolidation in the market, I think, provides or puts a lot of agents into a highly concentrated market situation. And I think agents generally try to avoid big concentrated positions, obviously, unless they are with us. That's [indiscernible] . So our opportunity, I think, for expansion capability, whether it's something that we're looking at for a team of people in either our E&S division or maybe in some of our Commercial Lines capability or just the fact on the agency side, ability to get a bigger agency commitment to put -- place with more of their best business with us, I think, provides us with opportunities. So I think all those noise is good for Selective.

Operator

[Operator Instructions] The next question comes from Mike Zaremski of Balyasny.

Michael Zaremski

Question on the 4 points of CAT load guidance. Now I looked the other day, it's running above 4%. Obviously, when the season just started, I hadn't thought that there were a lot of -- if I looked up PCS [ph] data, a lot of activity in some of your states this past quarter. I guess also if I just look at last year, it ran close to 4 points as well. So -- and I didn't think last year was particularly active year. So I guess what -- or how do you get comfort 4 points is the right level?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

Well, obviously, we've spent a lot of time every year in trying to budget the right number, but clearly that is the one number within our guidance that always has greater volatility around it since it's so dependent on, not only the events themselves, but also the way PCS may code them. I would say that although last year and this year, you think of as having lower activity only because there aren't a lot of big named occurrences. But there are -- is a great frequency of catastrophe losses that you see in both of those years, so you do have a lot of particular events that have occurred. If you look at how we arrived at our budget number, quite frankly, if you go back a few years, we very rarely had greater that an average of 1.5 points on the combined ratio. Over the last few years, we've average in the -- between the 4 and the 6 kind of a range, so you're either double on historic average or you're somewhat slightly less than the current average. So we think that 4 makes sense. We closed the year last year with 3.2 points on the combined ratio for the full year. So 4 points felt like a reasonable number for this year. Clearly, we're just starting wind season. Hurricane season, on occasion, has a big impact on us, if something large hits us in one of our particular states, but also, that's an uncertainty, too. And the years where they all hit Florida and the Gulf Coast, we had very little in the way of losses. So we still feel pretty good about our overall CAT estimate, but clearly, if a hurricane hits South Carolina or New Jersey, we'll have to revisit that estimate.

Michael Zaremski

Got it, that's helpful. And lastly, regarding alternative investment. If I look at the absolute level of alternatives, it looks like it's been decreasing over time. Should we expect you guys to lower your -- continue lowering your allocations to alternatives?

Dale A. Thatcher
Former Chief Financial Officer, Executive Vice President and Treasurer

We -- basically, what's happening right now, is the existing alternatives are returning cash quicker than we're able to find new alternative investments that we find attractive. So there's not a distinct desire to shrink our commitment to the class. It's really more a matter of opportunity compared with return of cash from those. So it's really dependent on us identifying new opportunities that we feel good about that we are able to provide appropriate returns and also appropriate volatility, so, i.e., not too much volatility in the overall scheme of things. So that's kind of the overall view of that.

Operator

The next question comes from Alison Jacobowitz, Bank of America Merrill Lynch.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

I'm just wondering if you could talk about a little bit about the growth in commercial property and what you're seeing from pricing there. I think we've been -- some of our esteem clients, so we just wanted to hear your color on that.

John J. Marchioni
President and Chief Operating Officer

Yes, we don't view property as necessary [ph] outlier. We're an account underwriter, and we write business on a package basis. We write very little, if any, monoline property on the commercial line side. And, certainly, don't write any large property on the monoline side. The pricing that we've seen has been relatively in line with the other major lines of business and that has been the case throughout this cycle. So with the style of business we write and in the manner in which we write it, there's really nothing that would make property and outlier in either direction from a pricing perspective or from a competitive perspective.

Operator

And at this time, we have no additional questions.

Gregory E. Murphy
Chairman and Chief Executive Officer

All right. Well, if you have any follow-up items, please contact Dale and Jennifer. Thank you very much for participating in the call this morning.

Operator
Once again, this does conclude today's conference. All parties may disconnect at this time.