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Earnings Call

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Call Participants

EXECUTIVES

Bryan James Salvatore
Executive VP & President of Specialty

Jeffrey Mark Farber
Executive VP & CFO

John Conner Roche
President, CEO & Director

Oksana Lukasheva
Senior Vice President of Corporate Finance

Richard William Lavey
Executive VP & President of Hanover Agency Markets

ANALYSTS

Grace Helen Carter
BofA Securities, Research Division

Jon Paul Newsome
Piper Sandler & Co., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, and welcome to The Hanover Insurance Group's Second Quarter Earnings Conference Call. My name is Keith, and I will be your operator for today's call. [Operator Instructions] Please note, this call is being recorded.

I'd now turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, operator. Good morning, and thank you for joining us for our quarterly conference call. We will begin today's call with prepared remarks from Jack Roche, our President and Chief Executive Officer; and Jeff Farber, our Chief Financial Officer. Available to answer your questions after our prepared remarks are Dick Lavey, President of Agency Markets; and Bryan Salvatore, President of Specialty Lines.

Before I turn the call over to Jack, 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 as defined under the Private Securities Litigation Reform Act of 1995.

These statements can relate to, among other things, our outlook and guidance for 2023 economic conditions and related effects, including inflation, supply chain disruption, potential recessionary impact evolving insurance behavior emerging from the pandemic and other risks and uncertainties such as severe weather and catastrophes that could affect company's performance and/or cause actual results to differ materially from those anticipated.

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, the presentation deck and our filings with the SEC.

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

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

John Conner Roche
President, CEO & Director

Thank you, Oksana, and good morning, everyone. Thank you for joining us for our second quarter call. Changing weather patterns and persistent inflationary pressures have had a significant impact on our financial results during the first half of the year, prompting us to further accelerate our margin recapture plan, including additional catastrophe underwriting actions.

The competitive landscape is changing rapidly in response to more frequent and severe convective storms and the continued inflationary pressures. In response, we are leaning into the hardest market we have seen in property, particularly in Personal Lines as we execute on our margin recapture plan.

We are determined to fully leverage our deep market knowledge, underwriting expertise, enhanced tools and strong agency partnerships to address the unprecedented loss volatility in Property Lines of business.

Our progress to date, our strong market position and our capable team give me the utmost confidence in our ability to succeed and deliver on the targets we conveyed at our Investor Day in 2021.

We have a long history of successfully navigating challenging environments, and we are confident in our ability to do so going forward. With that theme in mind, I'll begin today's call with my perspective on the current dynamic environment and the significant catastrophe losses we experienced in the quarter and a review of the actions we are taking to restore property profitability.

As part of our margin recapture and CAT management plans, including new initiatives we have underway. Jeff will review our financial and operating results in more detail and provide an update on our 2023 outlook, and then we will open the line for your questions.

The catastrophe losses we and the industry have experienced in the second quarter are extraordinary. In particular, the record-breaking hail storms that impacted the Midwest and Southwest. Hail damage represented the vast majority of catastrophe losses we experienced in the quarter. The magnitude of those losses was amplified by persistent and ongoing inflation, which continued to drive up loss costs.

Nearly half of our total losses in the second quarter occurred in Michigan, where we have our largest Personal Lines presence. By any measure, this kind of extensive and widespread CAT activity in the state of Michigan in a single quarter is very unusual.

With weather patterns changing and costs elevated, we are highly focused on a broad set of integrated actions across our portfolio. The positive news is that we are operating in an extremely hard Personal Lines market, one that allows us to reset our pricing, meaningfully change terms and conditions and further refine our underwriting and risk appetite. With this in mind, we are highly focused on executing the margin recapture plan we initiated last year, responding with a sense of urgency.

I'm pleased to report that we've made tangible and promising progress on our plan. We fully expect to build on that momentum. We have established driving improved and sustainable profitability going forward.

Looking first at Personal Lines, we are taking a number of steps to optimize pricing on our renewal book and to ensure new business quality and pricing are stellar.

Renewal pricing is clearly our most powerful lever. Year-to-date, we have received approval on 62 rate filings with 51 of those in the market and effective today, and we have a robust pipeline of additional filings, including 10 that are pending approval.

With pricing increases of 22% in homeowners and 12% in auto during the second quarter, we are beating our own rate expectations by a couple of points. This differential is expected to grow to 3 to 4 points in the second half of the year in auto, while homeowners pricing beat will grow to 9 points, with an expected renewal price change of 27% in the fourth quarter.

Not surprisingly, in the current Personal Lines hard market, retention has proved to be resilient, giving us even greater confidence in our enhanced profit improvement initiatives. The market has firmed meaningfully even since our last call 3 months ago.

We are seeing the impact of the hard market across the competitive landscape through both public and mutual carriers and in all geographies, particularly in the Midwest. We have achieved very strong pricing increases in new business as market disruption has heightened quoting activity across Personal Lines.

Since early 2022, our new business auto and home prices have risen by 30%. As a result, our current new business pricing is generally at or above renewal pricing levels, which reinforces our strong commitment to prioritizing profit improvement over growth. Additionally, we are becoming more restrictive as we quote new business, reducing our appetite in certain geographies, tightening our guidelines on driver history, and implementing stricter rules regarding building and roof conditions.

We are also utilizing increasingly sophisticated tools to assist us on property evaluations such as aerial imagery and third-party data technology on every home to ensure new business quality, which is equally as critical as pricing adequacy. As a result of our pricing and underwriting actions, Personal Lines PIF growth is now flat on a sequential basis, and we expect it to shrink on a sequential monthly basis starting in the third quarter. Our Michigan PIF has been shrinking for some time now, and it is down 5% year-over-year.

While rate and exposure increases are necessary and very effective in enhancing price adequacy of our CAT exposure, we believe specific product changes have the potential to have a very significant impact on reducing our future CAT vulnerability in Personal Lines.

Recent hail events put a spotlight on the fact that houses and roofs in particular, are still a full value replacement-type product in many geographies, and we believe the industry is ready for a broader fundamental change. As such, we are taking the following three steps: First, we're increasing all payroll deductibles to specific minimum levels by coverage A limit; second, we're implementing wind inhaled deductibles in multiple states; and third, we're transitioning to actual cash value schedule for roofs as our standard offering with the intent to make more appropriate claims reimbursements for older roofs.

While the industry has made advancements relative to diminishing roof valuations based on age and construction, we believe that pervasive hail storm events necessitate broad-based industry change. It's clear and important to note that older roofs are much more likely to be replaced post-hail events.

As such, we will be mandating such coverage on older roofs in most states. These product changes will be implemented first on new business in the majority of our Personal Lines states. In fact, effective next month, we are changing defaults on comparative raters for new business, so that business transacted through comp raters reflects our current standards. Most states will require a filing and approval for renewal policy changes, which will take a little longer to execute. When fully implemented, these actions are expected to significantly reduce our CAT risk, vulnerability and future losses.

To put this in perspective, a few examples will help showcase the expected impact. First, higher minimums on all peril deductibles will help increase cost sharing on CAT and non-CAT losses. Further, a 1% wind hail deductible would have the impact of more than doubling the deductible on a $500,000 coverage A homeowner risk and an ISO-based actual cash value roof schedule would reduce the claims cost by over 50% if a roof is over 15 years old. The cumulative effect of the actions we are taking in Personal Lines, including pricing, risk prevention and the fundamental change in our policy forms should materially reduce our Personal Lines catastrophe vulnerability and the volatility of our results.

Moving on to Core Commercial. Once again, we've made meaningful progress in all three of our margin recapture plan focus areas: pricing, underwriting and risk prevention. In terms of pricing, we're leaning into the property hard market to push for even higher rate and exposure increases, which should help offset both elevated CAT and ex-CAT losses.

Core Commercial property renewal pricing increased 12.6% in the second quarter. As of March, we automated insurance to value adjustments in small commercial, where appropriate, which are now set between 6% and 8% on top of rate increases and will increase overall renewal price change moving ahead.

From an underwriting perspective, we took actions to reduce the volatility associated with property, particularly in middle market in 2022. We identified specific accounts with a higher likelihood of fire and other large loss volatility, and we completed appropriate nonrenewals in this business in April of 2023. We were very successful with that initiative as reflected in our current accident results for the second quarter.

In 2023, we are now more closely addressing the pricing adequacy of our CAT exposures in light of persistent inflation and changes in weather patterns with our enhanced analytics, third-party data and CAT modeling. Specifically, we have identified approximately 5% of risks in our Core Commercial business that are most vulnerable to catastrophe losses.

As we nonrenew or significantly reprice this business, we expect our retention to decline slightly or our pricing to increase significantly. In the second quarter, these planned actions drove a dip in middle market retention to just below 80%, and we're pleased with this trade-off.

Consistent with our focus on loss control and risk prevention, we further expanded water and temperature sensor installation in 2023, resulting in an increase in avoided property damage and business interruption claims. We exhibited a 25% increase in protected accounts through the first quarter compared to the end of 2022. This figure has now doubled through the first 6 months of 2023.

We learned a lot and are pleased with the effectiveness of the risk mitigation technology pilots through initial implementation over the last 18 months. With the success so far, enabling us to surge ahead toward even higher implementation targets this year.

We will be implementing 2,500 to 5,000 new sensors in commercial lines accounts starting with 600 of our largest, most sophisticated and most exposed middle market accounts. These risks are targeted for installation this year, and we will continue to expand this program in the future. As a result of these actions, we anticipate the underlying ex-CAT loss ratio in our property book to further improve.

While catastrophe outcomes are difficult to extrapolate, we believe that our actions when fully implemented will reduce our vulnerability to winter storm losses substantially. While our profitability improvement initiatives are already showing significant progress, the pace of progress is expected to accelerate in the coming quarters as these actions price in and new ones are implemented.

Our Specialty book continues to perform exceptionally well, delivering robust pricing-driven growth and an exceptionally strong combined ratio in the quarter and year-to-date. The Specialty pricing environment is generally favorable overall, enabling us to achieve 11.4% price increase in the quarter.

While the market environment in some of our segments is becoming more competitive, in particular management liability, our ability to deliver consistent profitability is a testament to our disciplined underwriting and rate strategy.

The continued successful growth of our Specialty business is critical from a strategic perspective. This business provides important diversification for our overall portfolio and consequently reduces our property and CAT exposures, all while providing our agent partners with highly valued capabilities and business opportunities. The value of our Specialty portfolio to our agents and customers hinges on a highly competitive set of offerings, account-centric orientation, efficient service and coordinated relationship management.

While our existing portfolio offers significant growth potential, our Specialty team is exploring complementary capabilities to support continued expansion of the business. For example, we are looking to further leverage technology to execute a low-touch small Specialty strategy and potentially to expand our Specialty appetite slightly to align more closely with our Core Commercial customer set, so we can further maximize the benefits of our account and industry specialization strategy.

In conclusion, we remain committed to long-term profitability targets that are ambitious and achievable. We expect our ROEs to be strong in 2024, and to improve steadily through 2026. And we have every confidence we will be able to achieve our target profitability, potentially beating our long-term 14% ROE target. Supported by strong underwriting income and much higher than originally expected net investment income. We will, of course, continue to execute on our strategic priorities to continue expanding the top line. In the near term, profitability is our primary focus.

With that, I will turn the call over to Jeff.

Jeffrey Mark Farber
Executive VP & CFO

Thank you, Jack, and good morning, everyone. Let me begin with a high-level overview of our results and then discuss the performance of each segment in more detail. Significantly higher-than-expected catastrophe losses, particularly impacting Personal Lines resulted in a combined ratio of 111.3% for the second quarter. As noted in our pre-announcement, catastrophe losses in the quarter totaled $262 million or 18.5% of net earned premium. Stemming from 19 convective storms across multiple states. Over 70% of the losses were driven by hail peril.

Putting aside CATs, our earnings were in line overall with our expectations. Lingering inflationary pressure in Personal Lines was offset by higher net investment income and strong underlying performance in both Specialty and Core Commercial. Prior year reserve development was immaterial in the quarter with favorability in Specialty offsetting unfavorable development in Personal Lines. The Personal Lines environment has resulted in some pressure on liability coverages, particularly auto bodily injury and umbrella, which is reported in home and other.

Umbrella is inherently volatile, and we are monitoring it closely. However, we continue to be very pleased with this product offering, which remains one of the most profitable in Personal Lines.

In auto, we preemptively increased our current accident year loss selections for bodily injury in light of our recent experience and broader industry trends. In the same vein, we are also seeing slight pressure within Commercial Auto liability, which offsets the continued favorability in workers' compensation. Specialty experienced continued favorability in the quarter reflecting lower-than-expected losses in our professional and executive lines claims made business. Our team continues to do a very good job in managing expenses delivering an expense ratio of 30.6%, an improvement of 20 basis points from the prior year period. Our results in the first half of the year position us well to deliver on our full year expense ratio target.

Now turning to our segment review, starting with Core Commercial. We were pleased to deliver a solid ex-CAT combined ratio of 89.3% for the second quarter. The underlying loss ratio of 56.2% outperformed our expectations, supported by significant improvement in commercial multiple peril as we have observed both frequency and severity of large losses subside.

The strong performance in the quarter and year-to-date underscores the effectiveness of our margin recapture plan thus far, reflecting the impact of accelerated pricing and the 25 million of middle-market property nonrenewals we completed last year.

Small Commercial continues to deliver robust profitability and benefit from rate increases earning in. On the top line, Core Commercial generated net written premium growth of 7.2%, driven in part by robust renewal pricing, especially in property.

Specialty delivered exceptional performance once again this quarter as we continue to successfully deliver on our operational and financial priorities. From a profitability standpoint, the Specialty combined ratio, excluding catastrophes, improved 1.6 points from the prior year quarter, coming in at 85.6%, in part due to favorable development.

We delivered an underlying loss ratio of 54% for the second quarter, which despite the year-over-year increase is well within our expectations. Relative to the prior year period, the ratio increased 1.7 points, primarily driven by prudently raised loss selections in certain liability coverages and a comparison to lower-than-usual losses in Specialty Property Lines in the second quarter of 2022.

Specialty top line growth was in line with our expectations as net written premiums grew 7.6% for the quarter, propelled by growth in our most profitable lines. Retention also remains strong and as expected.

Pricing across the Specialty portfolio remains robust, helped by substantial increases of 15.3% in property during the quarter, inclusive of 23% in Hanover Specialty Industrial and 14% in Marine, our two largest Property Lines in Specialty and lower but still very reasonable pricing in casualty businesses.

Moving on to Personal Lines ex-CAT results. Personal Lines auto current accident year loss ratio, excluding catastrophes, was 79.1% in the quarter compared to 72% in the prior year quarter.

Loss picks for 2022 were adjusted upwards in the third quarter of 2022 to reflect higher inflation and repair delays. Physical damage inflation remains stubborn, especially for parts and labor. Frequency, while higher than 2022 is still better than our original expectations. While we are seeing some stabilization in used car prices and parts, this measure has been volatile as of late.

Similar to recent industry experience, we are seeing an increase in liability trends primarily for bodily injury coverages. Liability trends are a continued area of focus, and we are maintaining a prudent approach to setting our picks in BI, increasing our current accident year loss selections and continuing to file for higher rate increases.

Homeowners' current accident year loss ratio, excluding catastrophes, was 62.8% in the second quarter compared to 60.2% in the prior year quarter, reflecting an unusual spike in large fire losses. While materials cost inflation has slowed higher labor costs continue to present a challenge in this line as well.

Personal Lines generated net written premium growth of 10.1%, driven by robust pricing increases which exceeded our original pricing targets for the second consecutive quarter. Personal Lines renewal price change is up 16%, underscored by increases of 12% in auto and 22% in home while policies in force remained flat on a sequential basis. These actions, including accelerated pricing and product changes are expected to reduce our ex-CAT Personal Lines loss ratio by mid-single digits in 2024 compared to a full year 2022 baseline.

Homeowners improvement will occur more rapidly than in auto, given the ITV premium increases. That said, the ongoing Personal Lines inflationary trends have appeared to slow the pace of improvement toward our historically strong combined ratios. It may take us a quarter or two longer to get there. But we have the utmost confidence in our ability to drive steadily to that objective given our actions and the hard Personal Lines market. We expect to achieve target profitability on a written basis in 2024.

Turning to reinsurance. We successfully completed our property treaty renewals on July 1. Leading up to the renewal, we anticipated meaningful rate increases, but we were very pleased to secure the program with overall lower risk-adjusted increases than expected, particularly in our per risk treaty. The key elements and highlights of our current property reinsurance program are as follows: we renewed both treaties and maintained a very consistent structure from expiring treaties. The renewed per-risk property program is very similar to the expiring program in structure, retention and pricing.

We secured full capacity across our catastrophe occurrence program maintaining our $200 million retention. We placed the second tranche of the top $150 million reinsurance treaty layer. We maintained our multiyear placement with less capacity placed on an annual basis than last year. And we closed on a new $150 million 3-year catastrophe bond with favorable terms and pricing only slightly above last year's $150 million bond issuance, which remains in place for another 2 years if unused.

Taken together, these changes have resulted in increased reinsurance limits and an occurrence program that exhausts at $1.8 billion compared to the previous $1.6 billion for our highest concentration states. Overall, the success of these renewals provides third-party validation of our underwriting and mitigation actions.

Moving on to investment performance. Higher earnings yield and partnership income drove stronger-than-expected investment income of $87.6 million in the second quarter, which was primarily attributable to increased partnership income. NII contributions from partnerships can be volatile quarter-to-quarter. We continue to believe a more normalized partnership income expectation is approximately $7 million per quarter.

The current interest rate environment provides a long-term benefit to net investment income, allowing us to reinvest at attractive market yields and higher quality. Looking at our equity and capital position. Book value per share decreased 6.4% on a sequential basis to $62.62 in the second quarter, reflecting a net loss, a decrease in the fair value of fixed maturity investments and payment of our quarterly shareholder dividend.

Now turning to our outlook. We expect our full year 2023 ex-CAT combined ratio to be toward the higher end of our original 91% to 92% guidance range. Considering both loss experience to date, as well as the additional underwriting and pricing actions we introduced this year.

With respect to our customary quarterly catastrophe guidance, I want to share the following: we are certainly experiencing an extraordinary CAT year on top of fairly heavy loss experience during the last couple of years, which has been well beyond our CAT expectations. This clearly requires a ground-up reevaluation in addition to the thorough and granular process we go through each year.

Our expanded process will include a reevaluation of our modeled catastrophe losses, our historical experience and supplemental non-modeled risks using the most contemporary tools. We will also incorporate the actions we are taking to address our CAT exposure. We will share the results with you in early 2024. For now, we are laser focused on leaning into the hard market and addressing and resetting our CAT risk profile.

We are addressing current challenges head on through strong execution of our margin recapture initiatives with the efforts of these actions compounding over time to drive margin restoration in our property business. We are moving with a deep sense of urgency, a clear plan and a strong team in place, and we look forward to providing further updates on our progress over the next several quarters. We have great confidence in our ability to return to our traditional placement of profitability.
With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions]. And the first question comes from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I guess any more details about -- that gives us increased confidence in that sequential improvement, particularly in the Personal Lines underlying would be very helpful. I get the rate and I get the effects, but I think we've seen a lot of folks not quite make it in terms of improvement because of all those inflationary factors. I guess -- confident -- more confident to come would be helpful. But also, could you talk about sort of like as we go through the quarter, are we still seeing sort of an acceleration overall of inflation? Or maybe you could just talk about your inflation [indiscernible] as well, particularly in Personal Lines.

John Conner Roche
President, CEO & Director

Paul, this is Jack Roche. Thanks for your question. And obviously, the Personal Lines loss trajectory and our acceleration of pricing and terms and conditions are really a top priority for us in addition to our CAT management efforts.

To answer your first question, I think that the loss trend environment has been difficult for the industry to fully capture coming out in the post-pandemic environment. We're all trying to understand how the frequency trends and the severity trends are presenting themselves. There's a lot of good work being done from a claims analytics standpoint to separate out the various different types of claims and not use the traditional frequency and severity methodologies as our exclusive way to get after that. So I think what you saw in this quarter is that we acknowledge that even after the reset in midway through 2022, we needed to acknowledge that there was some persistency in the inflationary trends.

And so we made those adjustments. We're committed to making sure that we don't get behind and that we do the best we can to acknowledge the loss trends that are presenting themselves. We do expect that inflation is peaking or is going to peak here. There are some indications that, that's starting, but we're not going to count on that in terms of how we attack the profitability challenges that we have.

And I guess the best thing that we can do that I think you're seeing us do is to accelerate pricing to the next level on both home and auto. And relative to the CAT exposure, get even more emphatic about the changes that we need to make in order to address that aspect of our Personal Lines profitability.

Jeffrey Mark Farber
Executive VP & CFO

Well, given the increases in price that we're getting that are really accelerating and some of the anomalous nature of what happened in the second quarter with fire losses, it would be very hard to imagine a scenario where we're not seeing sequential improvement in Personal Lines.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Great. I'm sure other people will ask about your Personal Lines questions, so maybe I'll ask a Commercial Lines one. Obviously, results have held up there much, much better than Personal Lines. You are -- are you -- could you talk a little bit about sort of how you think of rate versus inflation in those businesses as well, not so much for the next quarter, but as we're looking out in the next year or past. Do we get some help on those businesses? Or is it all sort of about top line growth at that point?

John Conner Roche
President, CEO & Director

This is Jack again. I'll say a couple of overarching comments and then let Dick speak to some of his perspective there. I think the headlines for us are that because we do have a lot of property in our Core Commercial mix. We've been challenged more than some in terms of the CAT and the overall property volatility. The upside of that is that we are able to really lean into a firm market on the Commercial Lines property side and make some meaningful adjustments, not only in pricing but also some underwriting and terms and conditions there. And so I do think that pricing is still the #1 lever that we have, but price over loss trend, we believe, is very much going in the right direction.

Dick, do you want to follow up on that?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Just to amplify, I mean, Paul, we see the pricing environment as kind of remaining steady. We feel with the work we're doing and the portfolio we have, we'll be able to persist at the levels that we're currently experiencing. We're pricing ahead of loss trend, except for in workers' comp, which is an industry trend. And then as Jack has referenced, you layer on the underwriting actions that we are going to take, although we're mostly through that. we constantly scrub parts of our portfolio. So put all that together, and we feel like we can stay ahead of loss trend as we are right now.

John Conner Roche
President, CEO & Director

And I guess maybe the last thing, this is Jack again. The actions that we took, particularly in middle market, but to a lesser degree, in Small Commercial are clearly working, right? The underwriting on some of the large loss volatility that we had, we addressed pretty emphatically over the last several quarters, and we believe that a good portion of what we experienced in the second quarter shows that underwriting still matters.

Operator

The next question comes from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess first question on the ground-up study on your catastrophe, I guess, profile and kind of thinking through kind of your expectations in the future. Just curious like you did a good job. I thought of giving us some stats on this being an anomalous event, especially the Michigan stats. But I guess just stepping back, is there just a -- would Hanover have just more concentration in certain geographies that would -- that just inherently makes your CAT losses a bit less predictable given concentration? Is that something that makes sense in the relevance of the catastrophe study?

John Conner Roche
President, CEO & Director

So Mike, thanks for that question. This is Jack again. I think we certainly are taking the current catastrophe trends very, very seriously. But we're thinking about it broadly. And to answer, one of your questions in there, the most recent storms have clearly found our portfolio in a disproportionate way. There's no denying that, whether it be winter storm Elliott and how it presented itself or these hail storms that were heavily in the Midwest and particularly in Michigan.

I think the only fair way to answer the question is when you look at the broader catastrophe environment, perils, geography that we will certainly benefit when the storms start to hit some of the other areas that they traditionally hit. We've proven that we've done some really good work on the property aggregate management relative to the hurricane perils and even for some of the more traditional convective storms. We've done reasonably well when it comes to things like wildfire out West.

And so -- that's why the ground-up analysis is so important is that we're not going to play whack-a-mole with the most recent storms. We're taking very deliberate actions towards how we can improve our vulnerabilities around winter storms as well as these most recent hail storms, but our work goes to more broadly looking at those CAT trends and expecting that the weather will continue to be challenging but not as challenging as it's presented to us in the last 3 quarters.

Jeffrey Mark Farber
Executive VP & CFO

Just to add a thought there, Mike. Clearly, the model has produced an insufficient results, at least in recent times. And so I don't want to preempt the process, which is a very detailed process, but we're going to be supplementing the industry-leading models that we use, and we're going to be considering how we'd wait different time periods with that, whether we want to use the traditional backward looking or we want to weight some more current information to make sure that we're as contemporaneous as possible.

Michael David Zaremski
BMO Capital Markets Equity Research

Understood. And I'm just curious, so depending on the outcome of this process, well, base case, it will help you produce kind of, I guess, expectations on catastrophe losses and profitability. But with this kind of preempt potential, I guess, portfolio changes on the margin? Or could it be bigger changes to the portfolio depending on the outcome of the study...

John Conner Roche
President, CEO & Director

We're already...

Michael David Zaremski
BMO Capital Markets Equity Research

Anything strategic other than just kind of fine-tuning. Could this mean like a bigger transaction or something like that?

Jeffrey Mark Farber
Executive VP & CFO

Mike, we're already pricing for a CAT level that's meaningfully above what we had built into our plan. It just seems to necessitate that given the current environment. But as we go forward, we're really optimistic about our ex-CAT results. We're really optimistic about our NII and the growing impact that, that has. So even with a meaningfully higher CAT load, we still have a lot of confidence in our ability to hit the long-term targets. But surely, we'll look at the individual components of the portfolio and make some different decisions as to disaggregating or focusing capital in different directions from time to time.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And my follow-up is on specifically Core Commercial lines. Can you kind of maybe let us know how you guys are thinking about the profit recapture plan within this segment? It seems like there's been -- well, we can see there's been some improvement on an underlying loss ratio basis. And we heard your comments about the fire losses, too. But it looks like there's been some improvement, and it feels like maybe you're not pushing for as much price as well. So are we kind of in the later innings in Core Commercial in terms of the initiatives you've been taking over the past year?

John Conner Roche
President, CEO & Director

I think the way I would answer that question is that we have executed extremely well against the initiatives that we put in place around looking at some of our kind of most CAT-exposed areas, particularly in middle market, we spoke about a $25 million group of property oriented business that we took pretty flawless action on. But we continue to go forward.

And relative to pricing, we see some refirming in the property lines, and we are a beneficiary of that given our mix as I said earlier. So we are leaning into what we consider to be a very firm market in the Property Lines and continuing to diversify our portfolio and really laser in on types of exposures that present themselves more to the CAT peril. And I think we talked in the last call about educational institutions and some commercial real estate that are a little disproportionate in terms of their exposure to some of the CAT perils. And so we've taken particular action on some areas of our portfolio where we just think the risk/reward trade-off isn't as good as it's been historically.

Operator

And the next question comes from Bob Farnam with Janney.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

A couple of questions, more on the competitive environment in Personal Lines. So we've seen some kind of well-publicized pullbacks from the larger players from California and Florida, where not -- I'm just curious, in your footprint, are you seeing anything like that of the larger players pulling back from certain types of risks? And is that presenting an opportunity?

John Conner Roche
President, CEO & Director

Yes, this is Jack. I'll say a couple of things, and I know Dick has a lot more to say about this, but the short answer is yes. We see that in the territories that we -- the 20 states that we compete in, several of them are kind of a mutual kind of regional carrier dominated and others are more of a mixed bag of public and mutual companies. But we definitely see particularly some mutual companies ceasing new business, meaningfully changing their pricing not only in the renewal book, but their pricing acceptability. So our agents are clearly feeling a hard market across our footprint. And as we said earlier, we're leaning into it because we need to improve this part of our business.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. Just to amplify that, I would say, almost every state we're in, we see some action from multiple competitors, both stock companies and mutual companies that could come in the form of tighter coastal controls, certainly pull back in new business and absolutely pushing tighter terms and conditions. So -- which is why we have a lot of confidence and the aggressiveness and speed with which we're going to be moving.

And of course, we think this is where our strategy will help us with a narrow distribution and tight relationships with our agents. We do -- we do communication exceptionally well at the agent level and the customer level. So we're -- you're not going to see us just send out a broad-based memo. We'll be very thoughtful about the way we approach how we're changing our products.

Robert Edward Farnam
Janney Montgomery Scott LLC, Research Division

Right. And the second question I had was -- you may have already answered part of it because my second question was addressing adverse selection. So if your rate increases are in excess of what maybe what others are charging or increasing? Are you losing some of your better customers because there's more advantageous to move to the better priced products, but it sounds like you may -- may not because the competitors may not be there to offer lower rates. So long-winded question is just basically how you're dealing with adverse selection when you raise [indiscernible] much as you are.

John Conner Roche
President, CEO & Director

Yes. I can assure you that we evaluate regularly not only our renewal book in terms of what's leaving us, but have very tight controls and monitoring of our new business. And the short answer is that the quality of our renewal book is very strong. We are happy to -- with the trade-off of the renewal and pricing at this point and we're accelerating pricing, don't see any adverse selection in that process.

And from a new business standpoint, as we said in our prepared remarks, we're tightening our underwriting guidelines and accelerating our pricing, in some cases, above our renewal book and the market is still flowing new business our way. So we can be very selective in the short, short term, we're just making sure we don't over ingest new business of any flavor until we have confidence that we're on the right financial path. So we're going to be very conservative, but the market is very much cooperating with us.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes. This is where highly segmented analytics play an important role, right? We look at our retention at a very granular level by customer type to make sure that we're not losing the kinds of customers that we know are high margin.

Operator

And the next question comes from Grace Carter with Bank of America.

Grace Helen Carter
BofA Securities, Research Division

You had mentioned in the presentation some upward tweaks to loss cost trends in certain Specialty liability lines. I was wondering if we could get some more color on which lines in particular were impacted and if there was any corresponding impact on the Core Commercial book?

John Conner Roche
President, CEO & Director

Yes, Grace, thanks for the question. This is Jack. I know Bryan will chime in here quickly. I think overall, while we're dealing with a lot of property issues of late. We're also monitoring the liability trends very, very tightly. And in that context, Bryan and his team as well as the Core Commercial team are trying to make sure that we stay very prudent in our current accident year picks. So Bryan, you can kind of respond more specifically within the Casualty Lines within Specialty.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. And as Jack said and Jeff pointed out in his comments, right, we're just being very thoughtful about where there is a potential for increased liability development. And so in those lines, right, whether it could be in our management liability lines, it could be in some of our E&S lines, it behooves us to take a bit more conservative of a position, increase our loss selections somewhat. In the end, I would say that where it comes in for us in terms of pricing and in terms of the loss ratio is on plan. But I think it's thoughtful for us to at least make some adjustments in the environment.

Grace Helen Carter
BofA Securities, Research Division

And I guess going back to an earlier question about rate and pricing and Core Commercial. It looks like rate and pricing were relatively flattish this quarter relative to the first quarter. And we had seen quite a bit of acceleration at some peers. I was just curious if we should think about that as maybe a function of mix by line or geography or account size and just if we should expect some reacceleration going forward given the property component of that book.

John Conner Roche
President, CEO & Director

Grace. As I suggested earlier, I believe that the property lines within commercial broadly are further firming. So I think the answer is, yes, going forward, we're certainly pushing more rate and we see the market following that. But time will tell as we go through the next couple of quarters. Dick, I don't know if you have any specific...

Richard William Lavey
Executive VP & President of Hanover Agency Markets

We haven't spoken specifically about Commercial Auto to the other line, which also continues to be hard and requires us to continue to lean in there. So our objective is to accelerate pricing in Commercial Auto as well. So I think if you put those two together and -- you're going to see certainly a step forward, not a step backwards.

John Conner Roche
President, CEO & Director

I will remind you, though, that we have tended to be a little bit kind of ahead of the market and maybe a little bit more disciplined with our Core Commercial lines pricing. So I'd like to think that you're seeing some people kind of come back to us. And the question is, where does it go from here? We think it goes up.

Operator

And the next question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I just want to ask a question on some of the actions you're taking on Personal Lines. I think the market and you guys as well have been pushing rate for a while, and I think we're pretty familiar with whether it be kind of regulators slow playing things and then how the written and earnings patterns work. So the question is around some of the nonrate actions you're taking. And can you just give us your thoughts on, kind of, how regulators might look at those differently. If it's an easier process or a tougher process in some of the larger states you're exposed to? And then kind of if they get into the book any more quickly because I know you got to write them in, but it seems like they -- once they're written in is not an earned period that you really have to wait for, they kind of take effect immediately.

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, the nonrate actions that we take, frankly, are within our control they generally don't require any kind of approval from the state. It really is tightening down your underwriting appetite. You might nonrenew more business, which is something we're doing when we see losses, we'll -- we can tighten the nozzle on the quality of business coming in through the comp raters and our top sales platform. So those are all within our control and frankly, can have a pretty quick impact.

Deductibles is the other lever that we talked about in our prepared remarks. Those two can be shifted quite quickly. In fact, we have all peril deductibles already filed. We have the wind hail deductibles already filed and approved. So there's not that process in front of us. It's really about customer adoption. And making sure that your pricing is properly adjusted to accommodate those different deductibles. So yes, that gives us confidence that the actions we're taking, frankly, can hit the marketplace pretty quickly as we described.

Operator

And the next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I want to follow up on Matt's question. I think everything you're talking about on the property side makes perfect sense. Is there any agency resistance to that? In other words, is there any pushback from the distribution in terms of how aggressively you're adjusting the property closure?

John Conner Roche
President, CEO & Director

Meyer, thanks for that question. Obviously, given our strategy, that's an important question that we are asking ourselves, but obviously talking very, very openly with our distribution partners. And the short answer is no. We feel like we've got a high level of support. People understand that we have had some substantial financial pressure based on the environment, both from an inflation standpoint and a catastrophe standpoint. They also believe that we're driving pricing in terms and conditions that may be on the front end of the market but are consistent with the market conditions, and in the true spirit of our partnerships, we feel a high level of support.

We've had great discussions with our National Agency Council and our regional councils. And in some geographies, people are really anxious for us to push further because there is starting to be an availability issue as some of the markets start to shut down new business or really alter their new business appetite in a significant way. And so us making adjustments in our pricing and not overreacting on the underwriting side is considered to be very supportive by our agency partners.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's fantastic. One other -- maybe this is a positive issue. But I was hoping you talked about submission flows to -- for E&S casualty business.

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. So not surprising, I think, to us is that the volume of submissions both to our wholesale practice and our retail E&S business remain up. In fact, we are staffing more and more for it to keep up with the volume. And so I think it's an area for us that has really proven to perform well and to be delivering very strong double-digit growth for us.

So yes, thanks for the question. I'm pleased with the volume of submissions we're getting and we just have to manage them because they're meaningful.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Is there any change, I guess, one competitor early in earnings season, mentioned that they were seeing an uptick in casualty submission polls. I'm just trying to see how broad-based that is?

Bryan James Salvatore
Executive VP & President of Specialty

I'm sorry, I didn't quite get that. Sorry?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Broad-based, I understand that there's a kind of property business moving to the non-admitted market. I'm just trying to get a sense in terms of whether that is increasing or decreasing in casualty lines.

Bryan James Salvatore
Executive VP & President of Specialty

Now we see growth across both our property and our casualty E&S business. And frankly, the PIF count in our casualty business far exceeds our property business. So it's -- I would call it broad-based, yes.

John Conner Roche
President, CEO & Director

Yes. This is Jack. I think we're not only seeing the market continue to present more and more opportunities, but we're being very disciplined around our own mix, including when we do property

E&S do it where it does not add to our CAT exposure, and it's more very targeted lower limit property business that fits nicely into our portfolio. So both the market is supporting that in terms of flow and our underwriting discipline is ensuring that we take advantage of the opportunities in the right way.

Operator

And the next question is the follow up from Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Great. Just a quick follow-up on the slight uptick you're seeing in some of the casualty liability and inflation levels and cognizant that you guys have been talking about this more than others in front of it and your reserve release levels to year-over-year better than the industry average. But just curious, is this kind of broad-based because I was looking at the transcript, it looks like you mentioned Commercial Auto in their prepared remarks. But then after Grace's question, you touched on other lines. So is it just -- is it coming kind of broad-based? Is it mostly on the severity side? Or is it certain vintages? Or just any other context you'd like to add?

Jeffrey Mark Farber
Executive VP & CFO

I think it's a relatively minor issue, Mike. We're really just wanting to be prudent in the BI and some casualty coverages. For us, it's probably an undersized issue, but we're seeing some of it in some recent years and just wanting to really be prepared for it.

Operator

And this concludes the question-and-answer session. I would like to turn the conference over to Oksana for any closing comments.

Oksana Lukasheva
Senior Vice President of Corporate Finance

Thank you, everyone, for a great dialogue today, and we are looking forward to talking to you next quarter.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.