

**S&P Global**

Market Intelligence

# **Selective Insurance Group, Inc.** NasdaqGS:SIGI

## *Earnings Call*

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# Call Participants

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## EXECUTIVES

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*CEO, President & Chairman*

**Mark Alexander Wilcox**  
*Executive VP & CFO*

## ANALYSTS

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# Presentation

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## Operator

Good day, everyone. Welcome to Selective Insurance Group's First Quarter 2023 Earnings Call.

At this time, for opening remarks and introductions, I would like to turn the call over to Investor Relations analyst, Haley Chrobock.

## Haley Chrobock

Good morning. We are simulcasting this call on our website, selective.com. Replay is available until June 2. We use 3 measures to discuss our results and business operations. First, we use GAAP financial measures reported in our annual, quarterly and current reports filed with the SEC. Second, we use non-GAAP operating measures, which we believe make it easier for investors to evaluate our insurance business. Non-GAAP operating income is net income available to common stockholders, excluding the after-tax impact of net realized gains or losses on investments and unrealized gains or losses on equity securities.

Non-GAAP operating return on common equity is non-GAAP operating income divided by average common stockholders' equity. Adjusted book value per common share differs from book value per common share by the exclusion of total after-tax unrealized gains and losses on investments included in accumulated other comprehensive loss. GAAP reconciliations to any referenced non-GAAP financial measures are in our supplemental investor package found on the Investors page of our website.

Third, we make statements and projections about our future performance. These are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They are not guarantees of future performance and are subject to risks and uncertainties. We discuss these risks and uncertainties in detail in our annual, quarterly and current reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements.

Now I'll turn the call over to John Marchioni, our Chairman of the Board, President and Chief Executive Officer, who will be followed by Mark Wilcox, our Executive Vice President, Chief Financial Officer and Treasurer.

## John Joseph Marchioni CEO, President & Chairman

Thank you, Haley. Good morning and thank you for joining us. We've had an excellent start to the year. The headline for the quarter is that we continued to deliver strong earnings and remain very well positioned to effectively navigate the economic uncertainty and elevated loss trends that our industry faces. In the quarter, we had strong growth in all 3 insurance segments. Our all-in combined ratio was 95.7% despite higher-than-expected catastrophe losses. After-tax net investment income was up 25% over Q1 2022, driven by active management of our core fixed income portfolio over the past few quarters, and we produced a non-GAAP operating ROE of 14.6%, outperforming the 12% average we generated over the past 9 years.

Let me provide some additional color on our top line growth in the quarter. Net premiums written in our core business, Standard Commercial Lines grew 10%. New business in this segment was up 15% as we continued finding opportunities within our traditional risk profile and pricing expectations. Renewal premium change was a positive 12% as pure pricing increased by 7% and exposure was up 4.7%.

Our Standard Commercial Lines footprint has expanded by 8 states over the past 5 years, and that expansion contributed 2 points of overall growth in the quarter. Our early success in these markets is driven by the unique operating model we employ and the strength of the new distribution partnerships we established. In addition to bolstering top line growth, this expansion also benefits the bottom line through greater geographic diversification. We are working towards opening an additional 5 states over the next 2 to 3 years.

Net premiums written in our E&S segment grew 16% with new business growth of 9%, renewal pure rate of 7.4% and stable retention. Our mix of business has remained relatively stable in terms of limits profile and the lines of business and hazard mix. Net premiums written in our Standard Personal Lines segment grew 31% as we continued our transition to the mass affluent market. The mass affluent market now represents about half of our in-force book, and we expect that target business allocation to increase over the next several quarters.

I am particularly pleased with our profitability in the face of elevated catastrophe losses. In a quarter where industry losses were significantly above long-term averages. Our catastrophe losses were 6 points on the combined ratio or about one point above expected. Our combined ratio of 95.7% was only slightly above our 95% long-term target. Our underlying combined ratio was 91%.

Let me make some further comments about profitability. Standard Commercial Lines produced a 94.7% combined ratio and a 91.3% underlying combined ratio. Non-cat losses were about 3 points lower than last year and our budget, reversing the trend of increases we saw throughout 2022. Despite this favorable outcome, our view of overall loss trends remains in line with last quarter and continues to drive our pricing targets. Commercial Lines pricing moved meaningfully from 5.6% in Q4 2022 to 7% in the first quarter, driven by increases in the property and auto line. Retentions remained strong and stable.

Commercial property renewal pure rate was up 11.8% in the quarter and exposure increased 5.1%, producing a renewal premium change of 17.5%. We expect this pricing trend to continue. Commercial auto renewal pure rate was up 10% and exposure grew by 4.9%, resulting in a total premium change of 15.4%. E&S continued to deliver strong margins with a combined ratio of 85% and an underlying combined ratio of 84.3%. Like Standard Commercial Lines, non-cat property improved year-over-year and was better than expected for the quarter. The strong rate we've earned and underwriting improvements we've made over the past few years have favorably impacted E&S casualty loss ratios.

Standard Personal Lines profitability remains challenged. Excess cat losses largely drove the quarter's 116 combined ratio, but the 95.7% underlying combined ratio was about 10 points over target. Profitability improvement will be driven primarily by price increases as we continue to transition to the mass affluent market. In the quarter, 15 file rate changes became effective across the auto and home lines, with an average increase of 9.4%. We expect this pace to continue over the next several months. While there is a lagged impact on renewal pricing, new business pricing was up over 5% in Q1 and over 7% in the month of April.

Investments was another bright spot in the quarter. The portfolio produced \$73 million of after-tax income in the quarter, up 25% over Q1 2022. Our investment team has been actively positioning the portfolio to increase book yields, which is up by 137 basis points at the start of 2022 while also moving up in credit quality. To reiterate a point made last quarter, when investment returns exceed their long-term average, as we are currently experiencing, we expect to outperform our 12% operating ROE target, and we did that this quarter. While pleased with our strong start to 2023, we fully recognize that one quarter does not make a year. We continue to operate with great discipline in executing our growth and profitability initiatives. Our team of highly skilled and fully aligned employees, leveraging our sophisticated tools and technologies has positioned us as a market of choice for our top-notch distribution partners.

Our executive and regional management teams hosted 6 regional agency council meetings in March as we do each year. These sessions, each of which includes [ the bulk of ] 15 agency principles, are a great opportunity to solicit feedback on our performance, understand the challenges they face in their local markets and align on opportunities for additional profitable growth. They routinely tell us that the strength of our talent, the uniqueness of our operating model and the consistent approach we take to managing growth and profitability are the primary reasons why they make us their market of choice.

In closing, we in the industry continue to face headwinds from economic and loss trend uncertainty. However, I am confident we have built the organizational muscle to successfully navigate through any potential economic and market challenges. Our long-term track record of consistent strong performance along with industry low volatility backs up that claim.

Now let me turn the call over to Mark.

**Mark Alexander Wilcox***Executive VP & CFO*

Thank you, John, and Good morning. We reported a strong start to the year with \$1.48 of fully diluted EPS in the first quarter and \$1.44 of non-GAAP operating EPS. Our non-GAAP operating ROE of 14.6% came in nicely ahead of our 12% target. The strong performance was driven by solid underwriting results and significant growth in after-tax net investment income. Turning to our consolidated underwriting results. For the quarter, we reported \$1 billion of net premiums written for a healthy 12% growth rate over the first quarter of 2022, with each of our 3 segments contributing to the growth.

We reported a profitable consolidated combined ratio of 95.7% despite another active catastrophe quarter in the U.S. There were 18 individual PCS events impacting our footprint in the first quarter resulted in \$55.3 million of net catastrophe losses or a manageable 6.1 points on the combined ratio. The driver of the cat losses were 2 large storms in March and one in February, totaling \$38.8 million or 70% of our first quarter cat losses. These losses were offset in part by \$13 million or 1.4 points of net favorable prior year casualty reserve development. The favorable reserve development included \$10 million in favorable claims emergence in our Workers' Compensation line of business and \$5 million in E&S casualty. This was offset in part by \$2 million of adverse development in personal auto.

We have also adjusted up our personal auto liability loss pick for 2023 compared to our original plan for the year. The underlying combined ratio of 91% for the quarter was 2.1 points lower than in the prior year period, benefiting from lower non-GAAP property losses in our commercial property and E&S property lines of business. Non-GAAP property losses in total were 2.8 points better than expected, which drove underlying margin improvement compared to our expectations. Non-GAAP property, auto physical damage losses for commercial and personal auto remain elevated and above expectations.

Moving to expenses. Our expense ratio of 32.6% was up 50 basis points versus the year ago. As noted last quarter, we expect modest upward pressure on the expense ratio in 2023 but have several cost containment initiatives in place. Over the medium and longer term, we remained focused on lowering the expense ratio through various initiatives while ensuring we are investing appropriately to support our longer-term strategic objectives. Corporate expenses, which principally include holding company costs and long-term stock compensation, totaled \$12.1 million in the quarter.

Moving to investments. Our portfolio remains well positioned. As of March 31, 93% of our portfolio was in fixed income and short-term investments with an average credit rating of AA- and an effective duration of 4.1 years. Risk assets were approximately 9.9% of our portfolio as of March 31, in line with last quarter, but down from 11.8% a year ago as we have modestly derisked the portfolio against market expectations of a recession later this year.

For the quarter, after-tax net investment income was \$73.1 million, up 25% relative to \$58.5 million in the year ago period, driven by significant growth in investment income from our core fixed income portfolio. This was partially offset by a lower contribution from alternatives, which are reported on a one-quarter lag and generated \$6.1 million of after-tax gains compared to \$15.1 million a year ago. The strong growth in fixed income was driven by our active portfolio management RCM, where we put \$2.7 billion to work at high yields. The after-tax yield on the total portfolio was 3.7% for the first quarter, translating to a healthy 12.2 points of ROE contribution.

In anticipation of a potential decline in short-term interest rates later this year, we've been lowering our allocation to floating rate securities. Approximately 8.4% of our fixed income and short-term investment portfolio remains in floating rate securities, which is down from 10.4% at year-end and around 15% just over a year ago. As we have pared back our floaters, we have instead elected to lock in the current high new money rates for a longer period of time while managing our duration and credit quality targets.

In addition, consistent with 2022, we continued our theme of active portfolio management in the quarter and put \$1.1 billion of new money to work at a pretax yield of 5.5%. Our current book yield now stands at 4.33%, up 20 basis points in the quarter and 137 basis points since the start of 2022. As a reminder, every 100 basis points of high yield on our total investment portfolio translates to about 2.6 ROE points.

I'd also like to highlight the strength of our investment portfolio in light of the recent turmoil, particularly within the banking sector. We have no direct exposure to the securities of the particular banks that have recently been wound down. Our exposure to bonds of financial institutions is more diversified across sectors with a focus on large money center banks within banking.

Given the recent focus on commercial real estate, I thought I'd also briefly highlight our exposure to this asset class. Commercial real estate represents about 11.8% of our investment portfolio and principally arises from our allocation to agency and non-agency commercial mortgage-backed securities, which totals 8.1% of our portfolio. Just over 93% of these securities are invested in AAA and AA rated tranches and have a low likelihood of loss attachment in part driven by the strong level of subordination and these high rated tranches.

We also have a 1.8% allocation to commercial mortgage loans, which are all performing with an underwritten loan-to-value of 58% and debt service coverage ratio of 1.8x. Investment-grade real estate investment trust debt makes up 1.3% of the portfolio while real estate investment trust equity represents 0.3% and commercial real estate debt and equity within our alternative portfolio makes up the remaining 0.3%.

Overall, we feel good about the credit quality and liquidity profile of our investment portfolio. However, we are closely monitoring credit and liquidity conditions in the market and have a general bias to remain underweight risk assets at this time and to stay up in terms of credit quality and to maintain a strong liquidity position.

Turning to capital. Our capital position remains extremely strong with \$2.7 billion of GAAP equity and \$2.5 billion of statutory capital and surplus as of quarter end. Book value per share increased 5.8% during the quarter. Adjusted book value per share was up 2.5% for the quarter or 3.1% adjusted for dividends. Our parent company cash and investment position stands at \$497 million, which is above our longer-term target.

Our net premiums written to surplus ratio of 1.46x is in the middle of our target range and our debt-to-capital ratio of 15.9% is on the low end of our target range. These metrics provide us with significant financial flexibility to support our growth and execute on our strategic initiatives. We did not repurchase any shares during the first quarter. We have \$84.2 million of remaining capacity under our share repurchase authorization, which we plan to use opportunistically in 2023.

Finally, turning to our outlook. For 2023, our full year expectations remain unchanged from last quarter and are as follows: a GAAP combined ratio of 96.5% inclusive of 4.5 points of catastrophe losses. This assumes no additional prior accident year reserve development, while our first quarter combined ratio came in better than expected. It's too early to adjust our full year expectations.

After-tax investment income was \$300 million, including \$30 million in after-tax gains from alternative investments, an overall effective tax rate of approximately 21%, which includes an effective tax rate of 20% for net investment income and 21% for all other items, and weighted average shares of \$61 million on a diluted basis, which does not reflect any share repurchases we may make under our authorization. Overall, we are off to an excellent start to the year in terms of growth and profitability. With that, I'll ask the operator to open up the call for questions.

## Question and Answer

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### Operator

[Operator Instructions] Our first question comes from Mike Zaremski with BMO.

### Michael David Zaremski

*BMO Capital Markets Equity Research*

Maybe I might have missed this, I came on a few minutes late. Any color on the prior year development, the pluses and minuses? I did hear the commentary that I don't think your view of loss trend has changed meaningfully quarter-over-quarter, but I was just curious any color on PYD, which did come a little light versus, I guess, at least our expectations in commercial lines.

### Mark Alexander Wilcox

*Executive VP & CFO*

Mike, it's Mark Wilcox. I'll start, and John might jump in as well. So PYD for Q1 2023 was \$13 million net. And there are a couple of puts and takes in there. First off, really consistent with the year ago. We continue to see favorable claims emergence within the workers' compensation line of business, really driven by lower severities in years 2020 and prior.

We also saw lower severities for accident years 2021 and prior within E&S casualty and sold about \$5 million, or \$5 million of favorable reserve development there. But then the one other item in the quarter that went in the other direction was some pressure within personal liability for the 2022 year, and that was to the tune of \$2 million from an adverse development. So, \$15 million favorable, \$2 unfavorable net \$13, a 1.4% benefit on the combined ratio during the quarter.

And also, I mentioned in my prepared comments, which you may or may not have heard, was we did actually on the back of the increase in the 2022 accident year for personal [ auto ] liability increase our loss spec versus expectations for the 2023 year and that's embedded. That's included in the current year numbers. It doesn't jump out per se, but we did make an adjustment there in light of the trend that we have seen.

### Michael David Zaremski

*BMO Capital Markets Equity Research*

Got it. That's helpful. I guess stepping back and thinking about the -- both the competitive environment and action Selective is taking to maybe, my words, get in front of elevated inflation on the property side. I noticed in the prepared remarks, exposure was up close to 5%. Just curious, is that something noteworthy?

Or is that just pure new business? Or is it -- is that an element of kind of actions Selective is taking to proactively kind of reprice business maybe on the property side? And maybe just I'll add in, just is the overall competitive environment? It feels like Selective was earlier than peers kind of talking about some of the inflationary trends being higher and pricing for the industry, it feels like it's moving north in the right direction. But I'm just curious if you think the kind of also the overall competitive environment is kind of moving more of your way?

### John Joseph Marchioni

*CEO, President & Chairman*

Yes. Sure, Mike. I'll try to tackle all of the aspects of that question. With regard to exposure, in Commercial Lines overall exposure in the quarter was up about 4.7%, which is pretty much in line with what we saw in the fourth quarter. The fourth quarter for Commercial Lines was 4.4%. And property was the same. Property was 5% exposure increase in Q4 and 5.1% in Q1 and I think to your question, the starting point matters. And I think we've always had a lot of diligence around making sure our properties were properly assured to value.



And we put a lot of work and effort into that and are always evaluating our portfolio account by account to make those adjustments. And then what happened over the course of 2022 as inflation started to really accelerate, we did it to make sure we stay ahead of that. And so, I think that's always been our practice and will continue to be our practice. The pricing is also moving and moving pretty materially, and we think that's appropriate in addition to the exposure change because you really do want to understand both of those pieces as they both do impact profitability.

The commercial property pricing for us was up almost 4 points on a sequential basis to 11.8% and we'll continue to push for more rate adequacy because the commercial property line, we've got a lower risk-adjusted target combined ratio on that. We need to continue to improve that performance.

But I think the other important point just relative to property in the quarter, and I know there's been some commentary around the miss relative to expectations in the quarter driven by cats. Q1 tends to be at a higher cap load quarter for us relative to the full year. And you saw in the prepared comments, it was about a point above expected at 6 points. And you can see throughout the industry, the impact was much more significant on many others.

And we do think that's a testament to how we've always managed our underwriting and pricing philosophy relative to commercial property. So, I would suggest that the market dynamic there will continue to be, as you've seen in Q1. We did try to stay ahead of it in 2022. I don't think we're ready to declare a shift in severity trends in property, but it is favorable or nice to have a quarter where property losses on a non-cat basis came in better than expected and down on a year-over-year basis. And Mike, I might not have hit all pieces of the question, so feel free to follow up.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

Yes, you did. That was a long-winded question. Maybe lastly on the enhanced kind of disclosure or the commentary from Mark on commercial real estate. You did mention, Mark, low likelihood of loss attachment. This is -- you and everyone are obviously getting a lot of incoming on this asset class and exposure.

Any commentary about the CMBS exposure you have? Is it -- is the mark-to-market losses? Are they being driven more by spreads or just interest rates? Because there's plenty of, at least on my screen, kind of very high-quality AAA, AA-rated CMBS trading at a fairly substantial unrealized loss relative to your commentary about low likelihood of loss of [ cash ]. So just maybe any color you'd like to add there on what makes you comfortable?

**Mark Alexander Wilcox**

*Executive VP & CFO*

Yes. So let me give you a couple of more statistics and a little bit more color on the commercial real estate exposure, particularly non-agency CMBS, which is about 81% of our total CMBS portfolio, put the agency piece to the side because that has the guarantees behind it. But we feel very good about commercial real estate exposure, particularly within CMBS, but also the other allocations as well. But we recognize that it's a moving market.

And there on pressure on valuations. It varies by type of real estate, and it varies by location. And I think cost within the various commercial real estate sectors as well. So, not all real estate is equal. But I think there could be some pressures as we look ahead throughout 2023. As it relates to our portfolio, I would say that the unrealized losses within non-agency CMBS is really driven by higher benchmark interest rates and some widening of credit spreads on the back of concerns for our commercial real estate. But we do feel good about the exposure. Our duration is 3.1 years out from that asset class, as I mentioned in my prepared comments, 93% of it is AAA and AA-rated.

And with those higher tranches, you have a level of subordination. And across our whole non-agency CMBS, we have about a 33% subordination, which provides us quite a bit of protection in terms of losses that might come into the portfolio. The average loan-to-value across the whole non-agency CMBS portfolio is 56%. So, what we would describe as an effective loan to value when you consider the loan to value,



plus the subordination is 36%. So pretty far removed from a dollar of loss in terms of true losses. There's clearly going to be some aftermarket losses as investors and others have concerns about commercial real estate. But in terms of true defaults in credit losses, we feel pretty good about them.

Maybe just a couple of other quick statistics I'll give you, and we've done quite a bit of work on this from a risk management perspective. But we have been stress testing the portfolio. And if you go back to the great financial crisis back in 2008, 2009, they go peak to trough in terms of commercial real estate from a property index perspective, we just calibrated to the Green Street Commercial Property index. It was about a 36.7% decrease peak to trough in terms of the value of real estate. So, a pretty healthy decrease. But when you think on a go-forward basis, how much do you think commercial real estate is going to be down by.

When we stress tested our portfolio for non-agency CMBS to get \$1 of loss across the portfolio, we have to have a 40% decrease in the value of the real estate, we had a 50% decrease in the value of the real estate, we'd have about a \$9 million loss. So those are just a couple of kind of risk management metrics we're taking a look at. So, you have to have a worse situation at the great financial prices in 2008 and 2009 from a valuation perspective to have any meaningful actual credit losses. But again, there's always the mark-to-market impact and asset costs are still up, and spreads could widen. So, we're cautious but feel very good from a [ pre-loss ] perspective within non-agency CMBS.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

We can take this off-line as a follow-up, is it worth talking about your comment about subordination versus LTV and how you get to the 36 because another one of your peers has been saying something similar, and I feel like there's some confusion, but we can take it off-line, too.

**Mark Alexander Wilcox**

*Executive VP & CFO*

Yes. But let's take that offline, we're getting a little bit into the weeds here. But happy to follow up with a conversation after the fact.

**Operator**

Our next question comes from Grace Carter with Bank of America.

**Grace Helen Carter**

*BofA Securities, Research Division*

I was hoping we could talk a little bit about the components of the combined ratio guide for this year. I think last quarter, you had mentioned a 32.6% expense ratio target and, I think, 0.1% dividend ratio target. So, I was just curious kind of using that 96.5% and backing out the expenses and the catastrophe load as well as the full year impact of reserve development in the quarter.

I'm getting, I think, a 59.6% core loss ratio for the year, which is a little bit higher than the 59.3% that you all had mentioned last quarter. So, I was just curious, just trying to square that versus the favorable core loss ratio reported in 1Q 2023? Or if any of the other components have moved around?

**Mark Alexander Wilcox**

*Executive VP & CFO*

Yes, Grace, it's Mark. You have it correct. And what I would say is it's just too early in the year to make a change to our full year guidance. So, if you take our full year guidance to 96.5%, 4.5 points of cats, which clearly implies to John's point, being about a point above expectations, a little bit of favorable cat loss activity later in the year. That's a volatile line and there's some variability around that. And then if you kind of annualize the Q1 favorable development of 1.4 points through the rest of the year, assuming no more favorable reserve development, it sort of gets you to an underlying combined ratio of 92.3% for the full year to come back to the 96.5% and 4.5 points, assuming the expense ratio doesn't changed. And that

actually implies, I think, an underlying combined of 92.8% for the rest of the year, Q2 through Q4 to get there.

So, all I would say is we feel really good about Q1. Cats didn't behave well. They were a little bit a bit heavy. But overall, we saw the non-GAAP property loss ratio covered at 2.8 points better than expected. The expense ratio came in right on track and feel really good about all the other components of the combined ratio. But it's just a little bit too soon for us to take that benefit and roll it through the rest of the year. We just assume it takes normalize back to our initial expectations for the full year. But we'll give you a further update and a little bit better insight into the full year when we report again in 90 days? time.

**Grace Helen Carter**

*BofA Securities, Research Division*

Okay. That's helpful. And on Personal Lines, I think last quarter, you all had mentioned maybe needing to catch up a little bit on rate versus the industry just given some of the distraction from changing mix in the book over the past few quarters. Some of your peers have mentioned targeting reaching a target profitability by the end of 2024. I was just curious on the outlook for when you all think that your personal lines book can reach target profitability and if next year is a fair assumption for your book as well?

**John Joseph Marchioni**

*CEO, President & Chairman*

Yes. Grace, this is John. First of all, I think it's always dangerous to put a target out there, especially in an uncertain loss trend environment because a big driver on what happens to margins in personal lines is what happens with regard to loss trend. I think all of us, Selective included, have a clear understanding of what our rate plan is in terms of written and earned over the next several quarters, next year plus. And we have to make assumptions around the direction of loss trend. And I realize sometimes some of our peers do make pretty convicted statements around rate relative to loss trend.

But I do think you have to put some qualifiers around that when you project our loss ratios that far in advance. We have our sights on achieving profitability. We have assumptions in that plan around where loss trends go in subsequent quarters. But all we have to do as an industry is look back to the last 5 quarters and realize that loss trends can surprise us. So, I think that always is a reason to be somewhat hesitant about putting near-term profit improvement targets out there. That said, you have to remember, our book, and put this in context, personal lines was 8.5% of our premium in the quarter, but that book is also going through a significant transformation.

And the change in the in-force from mass market to mass affluent, which is a place that we think we're much better positioned to compete is impacting our run rate profitability. And we think long term will impact in a positive way. And then the rate changes, which we've indicated do have a bit of a lag from new to renewal as we get these filings approved and implemented, will start to come through on an earn rate basis as we move through subsequent quarters. We are on a path to profitability, but I'm going to stop short of putting a specific quarter out there.

**Operator**

Our next question comes from Paul Newsome from Piper Sandler.

**Jon Paul Newsome**

*Piper Sandler & Co., Research Division*

Almost as a follow-up here. In the past, we've seen claim trends diverge between private passenger auto and commercial auto, but maybe it's converging now. Could you just kind of maybe contrast what you're seeing in those 2 books and where they may or may not be different in -- from a claims inflation perspective? Yes.

**John Joseph Marchioni**

*CEO, President & Chairman*

So, I think from an auto physical damage standpoint, I think the trends were fairly well aligned. Those were the ones that were driven by inflationary impacts. And I think you saw those stay fairly well aligned and continue to be fairly well aligned. I think from a liability perspective, you might have seen a little bit of the difference on the social inflationary impacts, generally with us and in an industry, you've got higher limits profile on commercial auto BI than you do want personal auto BI and with movement in litigation rates.

I do think you probably saw a little bit more of a lag where it impacted commercial auto more quickly than it might have impacted personal auto. So, I think those are probably the 2 differences. But ultimately, the societal factors that are driving social inflationary trends will ultimately impact both lines, personal and commercial similarly, but the magnitude might look a little bit different just because of a difference in limit profiles.

### **Operator**

Our next question comes from Derek Han with KBW.

### **Dong Yoon Han**

*Keefe, Bruyette, & Woods, Inc., Research Division*

So just going back to the guidance, I completely understand your conservatism just given the uncertainty and elevated loss trends. But if we're thinking about just how should we think about the pricing reaccelerating to 7% in commercial? And just the assumed loss trends for the year? I think last quarter, you talked about 6.5% loss trends. And I'm just wondering if there's an update to that number?

### **John Joseph Marchioni**

*CEO, President & Chairman*

So, the 6.5% we cited in January for the full year, that broke down to 6% on casualty and 7% on property. And as Mark indicated earlier in his prepared comments and then in a subsequent question, we don't see the need to change those at this point. And I think -- and again, we always want to make sure we talk about loss trends, separating casualty from property because they're different. And casualty, that 6% trend that we mentioned is embedded in our loss picks. And a quarter into the year, we or anybody else would be very hard-pressed to say there's enough reported activity in frequency and certainly not in severity to say that they're going to make an adjustment downward in loss trend, and we're certainly not going to do that.

On the property side, the reason I think it is important to separate them out, property is different, and we call them loss trend, and we haven't assumed trend for our full year expectation for property on the non-cat side. But ultimately, what drives the variability is it's really what's the actual change in frequency and/or severity? So, we had an assumed loss trend or an assumed change in frequency and severity that would equate to 7% in the beginning of the year with 3 months in the books, we're seeing largely severities coming better than expected.

But it's too early to assume that, that will continue. To the extent it does, you'll see that come through in results relatively quickly, almost immediately. And I think where -- that's how you want to think about it. We're generating significant rate on the commercial property line plus additional exposure. And to the extent that severity trends come in better than we anticipated, you'll see that come through on reported results.

### **Dong Yoon Han**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Got it. That's really helpful. And then my second question, you obviously had a nice [ quarter ] loss ratio improvement of 260 bps. You called out that non-cat were about 3 points lower this quarter. I think last year, 1Q 2022, it was about 2.6 points higher. Is this just a function of normalization for the quarter that led to the improvement? Or are you making kind of -- as you constantly do like underwriting mix changes or claim benefits where you're benefiting from those kind of changes that you're making on the underwriting side?

**John Joseph Marchioni**  
*CEO, President & Chairman*

Yes. I think it kind of ties back to the first question there, which is, so the non-cat property better than expected and better than prior year is the primary driver in the underlying loss ratio that you're talking about here. But at this point, I would equate it to all of those factors. There is inherent variability, and we can never lose sight of that.

But we've also -- if you look at what we did in 2022, recognizing these trends were emerging, the pricing increases accelerated throughout the year. We've picked up exposure, that's earning its way in. And we've always had a very disciplined approach to underwriting and risk selection on the property line. That's also contributing. I'm not going to attempt to subsegment that year-over-year improvement into those different areas, variability versus underwriting and pricing, but they're all contributing to it.

**Dong Yoon Han**  
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And then last quick question on personal lines. New business was up \$16.7 million. That's up quarter-over-quarter and significantly year-over-year. Is that just easy comps? I'm just surprised by how much new business is growing, given the struggles or pressures in personal lines?

**John Joseph Marchioni**  
*CEO, President & Chairman*

Yes. The prior year comparison quarter was low, that was quite a low quarter from a production perspective. But I think this is us starting to hit our stride in terms of the market repositioning that we've been working on. But again, I think rate needs to start to earn its way in and it will start to earn its way in. But that's -- that was the 2 big drivers, tougher prior year comparison from the first quarter of 2022, but also starting to realize the success of repositioning into the mass affluent market.

**Operator**

Our next question comes from Matt Carletti with JMP Securities.

**Matthew John Carletti**  
*JMP Securities LLC, Research Division*

Just a model cleanup question at all got left. Mark, I apologize if I missed it early on. I was hoping you could break out the \$35 million or so of cat losses in the Standard Commercial segment by line?

**Mark Alexander Wilcox**  
*Executive VP & CFO*

Sure. Certainly, Matt. So just going by line in commercial auto, it was \$200,000. In commercial property, it was \$27.7 million and in BOP was \$7.2 million. That gets you to the \$35.1 or 4.8 points on the [ steady ] commercial lines. And then just, I guess within personal lines, it really is all home and E&S property, [ sold ] properties, so those are self-evident.

**Operator**

[Operator Instructions] At this time, speakers, we show no further questions. You may proceed.

**John Joseph Marchioni**  
*CEO, President & Chairman*

Well, thank you all for joining us today. Please feel free to follow up as always with any additional questions.

**Operator**

And that concludes today's conference. Thank you, everyone, for participating. You may now disconnect.

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