S&P Global
Market Intelligence

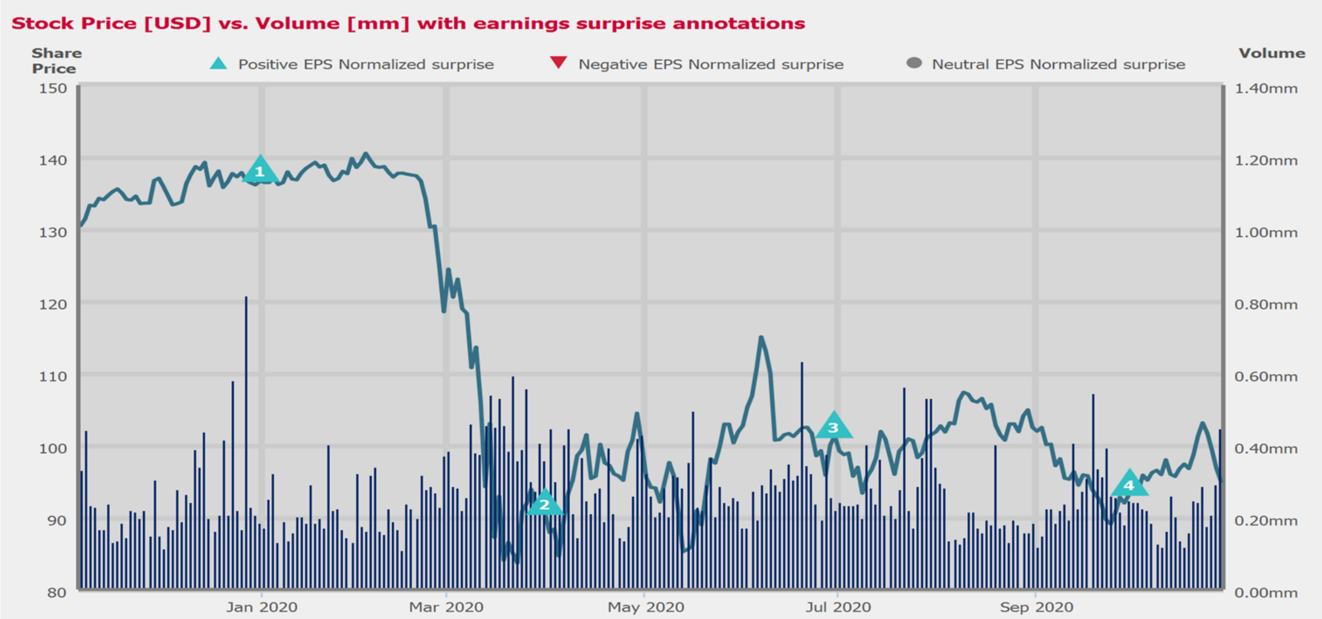
The Hanover Insurance Group, Inc. NYSE:THG
FQ3 2020 Earnings Call Transcripts

Wednesday, October 28, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.22	2.46	▲10.81	2.29	8.60	NA
Revenue (mm)	1256.95	1268.50	▲0.92	1137.60	4624.00	NA

Currency: USD
Consensus as of Oct-28-2020 7:18 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.98	2.01	▲1 1.52 %
FQ1 2020	2.03	2.23	▲2 9.85 %
FQ2 2020	1.08	1.63	▲3 50.93 %
FQ3 2020	2.22	2.46	▲4 10.81 %

Table of Contents

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
Vice President of Investor Relations & Financial Planning

Richard William Lavey
Executive VP & President of Hanover Agency Markets

ANALYSTS

Matthew John Carletti
JMP Securities LLC, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Good day, and welcome to Hanover Insurance Group's Third Quarter Earnings Conference Call. My name is Nick, and I'll be your operator for today's call.

[Operator Instructions]

Please note that this event is being recorded.

Now, I'd like to turn the conference over to Oksana Lukasheva. Please go ahead.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

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.

Our prepared remarks and responses to your questions today, other than statements of historical fact, include forward-looking statements regarding, among other things, our outlook for the fourth quarter and full-year 2020, the ongoing impacts of the COVID-19 pandemic, economic conditions and other factors on company performance. There are certain factors that could 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, which includes supplemental risk factors related to the COVID-19 pandemic and general economic conditions.

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. Good morning, everyone, and thank you for joining today's call. I will begin by discussing our third quarter financial highlights in the context of the current business and economic environment.

I will then provide a strategic review of each of our segments and our accomplishments during the quarter, and Jeff will review our financial results and outlook in more detail and then we'll be happy to take your questions.

We are pleased with our third quarter financial performance, especially given it was a particularly active catastrophe quarter across the industry. We reported earnings per share of $2.46 and an operating return on equity of 13.8% for the quarter. Our results reflect strong execution on the strategic tenants that drive our business forward.

Our company and earnings stream are well diversified and position us well to withstand environmental challenges, including weather volatility and the ups and downs of the economy and market.

We remain steadfastly focused on the hallmarks of our company. Our unique distribution strategy and approach, broad-based profitability, disciplined underwriting, effective expense management and a thoughtful capital allocation strategy that includes returning excess capital to our shareholders.

Turning to our third quarter highlights. First, we are very pleased with the trajectory of our growth and the consistent signs of building momentum in our top line. We achieved 2.1% growth in the third quarter, which represents a significant and expected recovery from the 2.3% premium decline we reported in the second quarter, normalized for onetime premium returns.

Our leading production indicators are quickly improving, and we are encouraged by Agency support and commitments, which once again validate the strength of our differentiated strategy and our broad and relevant product offering.

Looking ahead, we are confident in our ability to drive growth across our portfolio and continue to build on the strong pre-pandemic momentum we had established.

Second, as noted in our pre-release on October 13, our cat losses were slightly elevated in the quarter as a result of tropical storm systems, in particular, Hurricane Isaias and, to a lesser extent, wildfires in California and Oregon.

Our ability to mitigate the impact of weather events in the quarter is a reflection of the concerted proactive efforts we have made over the past decade to prudently refine our mix of business. To this end, we have expanded our Specialty capabilities and struck the right balance between property and liability risks, while continuing to diligently manage our geographic concentrations and proactively adjusting our business mix.

To counter the increasing frequency of weather losses, we reduced our exposures in vulnerable regions of the Southeast, Gulf Coast and West Coast, while reducing micro concentrations and enhancing our reinsurance protections.

These and other actions have enabled us to address potentially increasing weather-related property risks as we grow. Going forward, we are confident these actions, along with our increasing use of advanced tools and analytics, will position us to continue to deliver consistently strong results across our business.

Third, we continued to benefit from lower claim frequency in the quarter, particularly in Personal Auto. While frequency declined year-over-year, it is beginning to trend toward pre-pandemic levels as the economy reopens.

At the same time, we also experienced several large property losses in commercial multi peril, which occur in our book of business from time to time. After carefully reviewing the causes of loss and related circumstances, we found no clear correlation between the losses themselves or the prevailing economic environment.

Given our strong underwriting guidelines and risk management practices, we have confidence in our ability to manage such risks while continuing to drive profitability through rate increases and prudent mix management.

Lastly, the third quarter was a very active one for us from a capital management perspective. As announced last night, we entered into a $100 million accelerated share repurchase agreement, reflecting the strong excess capital we have generated so far this year from earnings.

This decision further demonstrates our commitment to deliver value to our shareholders and the confidence we have in our strong prospects moving forward. Jeff will provide more details on these items shortly.

Moving on to review our business highlights, starting with Personal Lines. We delivered net written premium growth of 2.3% in the third quarter compared to a decline of 5.5% in the second quarter or flat, excluding premium return.

New business submissions in the third quarter were consistent with the third quarter of last year across most territories. Contributions from renewal premiums continued to fuel growth, although retention was somewhat impacted from the backlog created by the lifting of cancellation and non-renewal moratoriums over the summer.

Our disciplined account strategy enabled us to effectively manage our business in a highly competitive environment and to drive profitability. Our performance reflects a focus on striking the right balance between rate and retention while achieving price increases where we need them the most.

Overall, Personal Lines rate increases of 4.7% in the quarter were fairly consistent with prior trends. And we are satisfied with the underlying retention when adjusted for the temporary increase in cancellations and non-renewals following the temporary second quarter increases.

Our personal lines year-to-date retention of 82% is a more indicative measure of our persistency and should move back to the mid-80s over time.

Additionally, we are encouraged by the continued success of our Prestige offering, which is adding 600 new accounts each month. Book consolidation activity also is continuing at an accelerated pace, with $71 million signed through the first 9 months of the year, exceeding our expectations for the full year. This level of activity further validates our unique approach to cultivating deep partnerships across the independent Agency channel.

We continue to broaden and enhance those relationships by expanding our geographic reach and introducing product capabilities to address unmet customer needs across our footprint.

From a strategic and operational standpoint, we made significant progress during the quarter. Earlier this week, we announced the expansion of our Personal Lines business in Maryland, further diversifying our book of business and expanding our Personal Lines presence to 20 states. We also are expanding our product capabilities in Personal Lines.

We recently launched a new suite of products, Home Business Solutions to cover home-based businesses. Entrepreneurs throughout the country are starting home-based businesses in record numbers. Yet, nearly 60% of these businesses lack adequate insurance.

To address that gap, our product provides à la carte options that could be bundled with existing homeowner policies, including our Prestige offering.

As importantly, our Personal Lines team continues to execute exceptionally well in a new regulatory environment in Michigan, following Personal Auto reform, which went into effect in July.

As a top insurer and an industry thought leader in Michigan, with 12% of our overall premiums in Michigan Personal Auto, we advocated for auto reform for more than a decade and it was essential that we excel in our implementation.

The reform provides Michigan consumers with the ability to save money on premiums in exchange for a reduced personal injury protection limit. Cost control measures, such as fee schedules and utilization controls, should substantially reduce the severity of claims and increase the efficiency of the system, once implemented mid-next year.

At the beginning of last year, we laid the foundation for the transition with a proactive plan that included operational, educational and self-service tools for agents and consumers.

Our third quarter Michigan Auto premium grew approximately 4%, while average net premium per customer for us remain relatively consistent.

In summary, we remain confident that we will maintain our underwriting profitability in Michigan, while we gain share of the high-quality risks in the state, outperforming the market over time.

Overall, we are very pleased with our Personal Lines performance and how we are navigating the market. Our predominantly full account and more complex customer profile position us well in the competitive environment. We are closely watching the competitiveness of our products and adjusting our rates to strike the right balance between growth and profit.

We are keeping an eye on frequency in anticipation of it returning to more normal levels. Our unique Agency Insight tool, coupled with comparative rate monitoring, provides great transparency within our distribution and allows us to navigate the market successfully.

Turning to Commercial Lines. We are very pleased with the growth momentum in our business. We delivered net written premium growth of 1.9%, up from a decline of 4.6% in the second quarter. We are encouraged by the accelerated pace in most production metrics, including renewal premiums, which are trending higher than historical averages and new business, which has rebounded from a low point in the second quarter, but still remain subdued compared to pre-pandemic levels.

In Small Commercial, we are pleased with policy exposure levels, which turned positive for the quarter. Although still slightly negative, middle market exposures have come back significantly from the second quarter.

Notably, the growth momentum in our Specialty businesses has almost returned to pre-pandemic levels. We have rebounded to our 2020 direct written premium plan on a year-to-date basis with robust new business and renewals.

Our management liability, health care, E&S and Specialty Property businesses have posted growth in the double digits in the quarter, while Specialty overall growth was 5%.

The success of our Specialty business goes back to our value proposition of providing a broad set of relevant and distinctive products and capabilities that are delivered to customers exclusively through high-quality independent agents.

Rate continues to accelerate in our core Commercial Lines book, now standing at 5.7%, while Specialty rates are meaningfully higher, led by management and professional liability, health care and Specialty Property.

In Core Commercial, we are seeing significant rate firming in Property Lines, while we continue to push double-digit rate in Commercial Auto.

Over the last several quarters, we and others have commented on the need for rate across the commercial insurance space. The cumulative impact of rising social inflation, severe weather and continued lower interest rates should help continue to push commercial rates up in the near term.

While social inflation was less obvious during the height of the pandemic with the backlog of court dockets and overall economic distress, we fully expect it to reemerge and perhaps even exceed previous levels. On the basis of focusing on these long-term loss trends, we believe that the rate we are achieving currently is meaningfully in excess of loss trend. We are very optimistic that Commercial Lines upward rate trajectory will continue.

On the technology and innovation front, our newer product launches continue to expand, with E&S growth accelerating and growing double digits with our best agents in our target markets.

We continue to broadly leverage our Core Commercial infrastructure and relationships to drive Specialty growth. As a logical and important step in this evolution, we've recently expanded our TAP Sales online quote and issuance capability to include management liability and miscellaneous professional liability products, enabling our agent partners to easily quote rate buying and issue stand-alone small business Specialty policies.

The investments we are making in technology and innovation leverage our broad account-based focus and drive meaningful efficiency solutions. Most importantly, with all of our businesses, we continue to execute on our differentiated Agency centric strategy, enabling our future growth.

We remain incredibly committed to staying connected with our distribution partners. To that end, this quarter, for example, we conducted over 50 virtual CIAB executive meetings with many of the top 100 agents around the country, during which we discussed how we can enhance our capabilities to help all of us grow and better serve our customers.

In addition, we are in the process of holding virtual roadshows with our agents in our key markets across the country. To date, members of our senior management team have connected with over 500 of our agents. These engagements have been extremely fruitful.

In response to these distribution touch points, our efforts to enhance our digital marketing capabilities are front and center, as is our next-generation of our proprietary analytics tool, the Agency Insight.

We pride ourselves on having our finger on the pulse of the market and on bringing contemporary capabilities forward to meet the needs of our agents.

Our agents are responding very favorably, and we expect these efforts will contribute to our accelerated growth trajectory going forward.

I am very proud of our team and our outstanding performance in the face of so much adversity this year. I am excited about the opportunities we have as we build on the solid foundation we have established to drive our company forward. Over the next several quarters, we will continue to invest heavily in digital capabilities, finalize new product launches and advanced underwriting capabilities across the portfolio as we position our firm for long-term success.

We are better positioned today than ever to take our company to the next level, delivering for all of our stakeholders and achieving our goal to be the premier property and casualty franchise in the independent agency channel.

Now I will turn it over to Jeff.

Jeffrey Mark Farber

Executive VP & CFO

Thank you, Jack, and good morning, everyone. I want to reiterate Jack's comments about the strength of our book of business, which is reflected in our terrific bottom line performance.

For the third quarter, we reported net income of $118.9 million or $3.13 per fully diluted share compared with net income of $118.9 million or $2.96 per fully diluted share in the same previous period last year.

After-tax operating income was $93.5 million or $2.46 per diluted share compared with $93.0 million or $2.31 per diluted share in the prior year quarter. We recorded an all-in combined ratio of 94.2% compared with 94.4% a year earlier.

Our ex-cat combined ratio was 88.4%, an excellent result compared to the 91.3% in the prior year quarter. The improvement reflects the continued benefit of favorable frequency, primarily in Personal Auto.

While frequency continues to lower across several lines in our portfolio, we are seeing signs that is returning to more normal levels as economic activity resumes.

At the same time, we continue to maintain a prudent reserving approach in longer-tail liability lines, given the continued uncertainty and the potential impact of increasing social inflation as well as the potential for increased claims severity.

We believe our balance sheet has never been in better shape. Catastrophe losses at $65.9 million or 5.8% of net earned premiums came in slightly above our expectation for the quarter, but we were much more benign than the industry experience.

Our performance is a testament to proactive actions taken over the past decade to better manage our exposures by line of business and geography to maintain our disciplined approach to underwriting and to diversify our footprint.

In addition, in the quarter, we benefited from favorable prior year cat development of $9.6 million, which stems from a variety of events from recent accident years as well as to a much lesser extent a small remaining favorable settlement from the 2018 wildfires.

Turning to our ex-cat prior year development. We reported net favorable development of $2.6 million with strong favorability in workers' compensation and other Commercial Lines, partially offset by additions in home, Commercial Auto and CMP.

Commercial Auto continues to be a focus area for us and a concern for the industry.

Over the past couple of years, we have consistently achieved rate increases around 10% and executed on a variety of underwriting actions to better position our portfolio. We will continue to stay firm on rate to overcome the effects of continuing social inflation in this line.

Our CMP business experienced unusual adverse development related to 3 large losses from recent accident years. Coincidentally, this quarter, we incurred about $6.5 million, a favorable development from a few large CMP property claims that stemmed from prior year catastrophe events. There is a certain level of randomness we expect from property losses in our portfolio and this quarter results are a good example of this.

I'm pleased to report that our loss activity related to the $19 million in COVID reserves we held at the end of the second quarter remains limited. We continue to hold these reserves in the event they are needed to pay COVID-19-related claims, including those related to sub-limited business interruption endorsements and workers' comp presumption orders.

We continue to monitor the ongoing legislative and regulatory environment very closely. We believe, recent core activity in recent pronouncements in the U.S. have been favorable and supportive of the sanctity of contracts.

Turning now to expenses. Our expenses ticked up 10 basis points in the quarter due to the timing of certain agent and employee incentive costs. Year-to-date, our expense ratio is consistent with our original budget of 31.5%. And we have a clear line of sight to the expected 10 basis point expense ratio improvement for full year 2020.

In a year of subdued growth, our deliberate business investment planning and expense discipline is serving us extremely well. We expect to continue delivering a 20 basis point improvement in the expense ratio going forward.

Additionally, we recorded a non-ratio bad debt expense of approximately $3.6 million, which continues to gradually decline from the highs we recorded in the first and second quarters.

Consolidated net premiums written grew 2.1% in the third quarter, as we continue to see increasing momentum from the low point in the second quarter.

Our trajectory was fueled by strong renewals and increasingly robust new business and Agency book consolidation activity, all of this with a backdrop of continued lower economic activity. We have confidence that this momentum will continue over the coming quarters.

Moving to a review of underwriting performance by segment. In Personal Lines, we delivered a combined ratio, excluding catastrophes, of 83.5%, representing an improvement of 6.9 points from the prior year quarter. This improvement was almost entirely driven by the temporary frequency benefit in Personal Auto. While such frequency continues to be lower, it is trending back toward historical averages.

We continue to be especially prudent in reserving for potential liability exposures from delayed reporting, legal costs or social inflation. We are also monitoring our book carefully, remaining vigilant for increased severity from accidents at higher speeds. Homeowners' current accident year loss ratio, excluding cats, was 48.2%, essentially flat from the prior year period.

Turning to Commercial Lines. We reported a combined ratio, excluding catastrophes of 91.8%, relatively consistent with the prior year quarter. Commercial Lines ex-cat current accident year loss ratio was also in line with prior year. The temporary frequency benefit in certain property coverages was offset by elevated large property loss activity in CMP.

CMP current accident year loss ratio ex-cat was 59.1%, up 2.7 points from the prior year quarter, driven by several large property losses. We reviewed our underwriting and causes of loss, and did not find any correlation to the current challenging environment or underwriting issues.

These types of losses occur from time to time. We feel comfortable with our overall pricing as we continue to achieve rate above long-term loss trends in this line, including an increase in rate in the quarter.

Commercial Auto ex-cat loss ratio improved 3.2 points to 64.4%, reflecting temporary lower frequency in physical damage claims, although not to the extent we reported in Personal Auto. Given the trends we are seeing in prior accident years, we are particularly focused on ensuring that we have a more conservative approach for liability picks.

Workers' comp loss ratio was flat at 61.2%, with some diminishing, but still favorable frequency of losses in the quarter. While underlying trends continue to be favorable, we remain prudent in our reserve decisions.

Other Commercial Lines improved 1.4 percentage points to 54.1%, due to slightly lower losses in short-tail property lines.

Overall, we are very pleased with our underwriting performance and improved growth dynamics in the third quarter.

Now moving on to investments. Net investment income of $67.6 million was down slightly from the same period of last year as we continue to experience pressure from lower new money yields.

Our partnerships portfolio performed well, contributing $6 million to NII in the quarter. Borrowing any unusual market volatility moving forward, we expect partnership income to be consistent with pre-pandemic levels. With that said, we will continue to see some impact of the low interest rate environment earn in increasingly over time.

Cash and invested assets were $9 billion at the end of the third quarter, with fixed income securities and cash representing 86% of the total. Our fixed maturity investment portfolio has a duration of 4.7 years and is 96% investment grade. The well-laddered and diversified portfolio remains high-quality with a weighted average of A-plus.

Turning now to our equity and capital position. We delivered a strong operating return on equity of 13.8% in the quarter and 12.1% on a year-to-date basis, despite elevated cats, particularly in the second quarter.

Our book value per share of $84.32 increased 4% during the quarter, driven by operating income and both realized and unrealized gains in our investment portfolio, partially offset by the payment of our regular quarterly dividend.

From a capital management perspective, this was a very active period. One of the strategic strengths Jack talked about earlier is our capital allocation strategy. This year has highlighted the quality of our earnings as well as our ability to consistently generate excess capital. With this in mind, and considering current market levels, we have entered into $100 million accelerated share repurchase agreement.

We expect to receive 80% of the total shares on October 29 and anticipate receiving the final delivery of the remaining shares no later than early February 2021. After the final delivery of all shares under the ASR agreement, we will have repurchased approximately 2.2 million shares or 6% of the outstanding shares from the beginning of 2020. We will have approximately $122 million remaining under the existing share repurchase authorization.

In August, we issued a 10-year $300 million senior unsecured note at a very attractive annual coupon of 2.5%. We used a portion of the proceeds to retire $175 million of subordinated debentures with a 6.35% coupon, improving our capital cost and overall capital structure. The strong investor support we received for this issuance underscores the confidence they have in our strategy and future growth prospects.

As we move into 2021, this transaction further enhances our financial flexibility and will support organic growth opportunities across our business as well as other capital uses.

We are confident in our earnings trajectory, growth prospects and earnings resilience going forward and we remain fully committed to our stated return on equity targets.

We generate ample capital for future growth and believe that the best use of excess capital is often to return it to shareholders, especially at such valuations. We take seriously our mandate to serve as stewards of our investors' capital, and we're continuing to demonstrate that commitment, not only with words, but with actions that we believe are in the best interest of our shareholders.

Turning to guidance. We expect full-year 2020 net premiums written growth to be slightly positive compared to 2019. We are increasing our full-year 2020 net investment income target to $260 million to reflect performance in the third quarter. Our fourth quarter ex-cat combined ratio expectation has improved to around 91%.

As I mentioned earlier, we are maintaining our expectation of a 10 basis point expense ratio improvement in 2020 from full-year 2019, and then returning to 20 basis points improvement in 2021 forward.

We have a fourth quarter cat load of 3.8% of net premiums earned and assume an effective tax rate to roughly equal the statutory rate of 21%.

Given where we are in our corporate-wide financial planning process, it is still too early to comment on most guidance items related to 2021. But we are confident in the improving top line trajectory and our profitability moving forward, despite the many challenges and headwinds we have faced this year.

In closing, we are pleased with our performance in the third quarter. While the market always presents challenges, our team continues to successfully deliver on our strategic imperatives, remaining agile and opportunistic as we advance our goals and those of our agents and customers.

We enter the whole stretch of 2020 in a strong financial position with a unique and proven strategy, a strong and committed team more focused than ever on the opportunities that will enable us to continue growing profitability in the year ahead.
With that, we will now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions]

First question comes from Mike Zaremski of Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Thinking maybe first question, Jeff, in your prepared remarks, you talked about -- you mentioned the balance sheet has never been in better shape. I believe, you're referring to loss reserves. And if I'm incorrect, feel free to tell me that.

Are there any data points you can point to us in order to elaborate on that comment? You guys have a lot more insights than we do. When we look at prior year reserve development, clearly, it's been positive, but it's been fairly small year-to-date in terms of -- in the Commercial Lines. I'm speaking to kind of ex the catastrophe loss reserve development, it's nothing fending, nonetheless than -- less to that point. So anything you can elaborate on there that could help us?

Jeffrey Mark Farber
Executive VP & CFO

Thanks, Mike. Sure. Overall, as you know, the frequency in the second quarter and continuing into the third quarter have been much lower than it had been in previous years and previous quarters. Particularly in the second quarter, it was down a lot. And as we said, it was still down more in the auto lines. But even in the second quarter, it was down really across the board quite substantially.

So our approach was to be concerned about whether there was any delay in claims reporting, whether there was a social inflation or other additional legal costs. So we took the opportunity to really be more prudent on reserving for those matters, particularly in the longer-tail lines.

So it's a little hard for me to point to anything specifically, but I can say with a lot of confidence that we're further along in terms of percentage of expectation that we've been able to reserve really in the last 2 quarters. And if we look at how things are behaving in prior years, it's running off very comfortably.

On a COVID perspective that [19] is holding quite nicely. We're keeping it there on COVID reserves. We don't do travel, trade credit, event cancellation, very low workers' comp. So we're feeling really good about our reserve levels at the moment and very well positioned, Mike.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. And maybe that your answer kind of ties into my next question on the -- asking your ex-catastrophe loss ratio in Commercial Lines, it's kind of been flattish year-over-year. And year-to-date, it's improved a little bit, but not a ton despite COVID benefit.

So is that -- I think either -- maybe -- I'm trying to get at, like maybe if you can kind of try to quantify the non-cat weather was heavier this quarter. But maybe you guys are right not implying that you're maybe not lowering your picks as much as you potentially could on the underlying.

But maybe you can kind of talk about the non-cat weather, except that was something you called out if it's quantifiable and I guess, long-winded too, maybe you can talk about your feel on commercial loss trend, if it's changed.

Jeffrey Mark Farber
Executive VP & CFO

Sure. So I'll start. On the CMP line specifically, Jack referenced the number handful or so of large losses that we had in the third quarter. And we thought -- we think those are sort of anomalous and not likely to continue on a regular basis. If you roll back to the first quarter, we had one very large loss, which was a fire loss, which happened to hit the aggregate annual deductible. So it was a $10-plus million loss. So when you put that together, we believe we had an elevated property experience in both the third quarter and the year-to-date period.

You then combine that with our interest in being conservative, particularly in the long-tail lines, really across Commercial, it really gives us an opportunity to be more prudent with our balance sheet and still react to the things that we saw. So I think the combination of those 2 is keeping those loss ratios relatively flat. Jack, maybe I'll pass it to you to cover rate versus loss trend, which we feel great about.

John Conner Roche
President, CEO & Director

Yes. Thanks, Mike, for the question. And listen, this is -- overall, we have a lot of confidence in our Commercial Lines profitability and our ability to continue to grow profitably. As Jeff said, the CMP line had some property volatility in the quarter. We've done, as we always do, extensive analysis to make sure that there isn't something that we didn't contemplate or something that's emerging and we really didn't find anything of significance.

We look back really over the last 5 years, and this has been a terrific line of business for us, averaging high 30s, low 40s loss ratio. So we have every confidence that when that line gets back in line that we can show real favorable profitability. And the prudence that we're showing in our liability and workers' comp picks and reserves, I think, will prove beneficial over time.

We are definitely following that same philosophy that Jeff articulated. And although that's true for 2020, it's also true for the last few years. We have been exercising a much more conservative reserving philosophy that we think will pay dividends over time.

Jeffrey Mark Farber
Executive VP & CFO

On the rate versus loss trend side of it, Mike, we're getting very substantial rate. Its 5.7 points on Core Commercial, and on the Specialty side, we're getting north of 7 points of rate. When you compare that to long-term loss trend, it's substantially in excess of long-term loss trend, which bodes quite well for underwriting margins as we go forward.

Michael David Zaremski
Crédit Suisse AG, Research Division

Very helpful. And lastly, just switching to Personal Lines, and thank you for all the color on Michigan, so it's definitely so far, so good. But just more higher level, just trying to think through the dynamics there. It seems like you guys are still pushing mid-single-digit rate increases, retention is falling, though. Is profitability -- do you feel like -- I know there's a lot of noise in profitability. That's what I'm kind of asking is, do you think profitability is kind of where it needs to be, and you guys can kind of let off the gas on rate increases? Or what's the kind of your outlook that you think on growth versus margin in Personal Lines more broadly? Ex kind of -- I think we're assuming, unless you disagree that there continues to be some auto frequency benefit.

John Conner Roche
President, CEO & Director

Yes, Mike, this is Jack again. Listen, overall, we're very pleased with our Personal Lines performance and our confidence in being able to continue to bounce back to kind of pre-pandemic growth levels. The second quarter really was significantly impacted by, as you know, the premium refunds as well as the moratoriums.

And so, while we acknowledge that there's some competitive forces in the market, I think when you normalize our retention in the third quarter for kind of the catch-up of those cancellations coming out of the moratorium and you look at particularly our account business that's running at around an 83% retention ratio.

And the new business that is starting to pick up. I think we highlighted in our prepared remarks, the signings that we're having in market conation, the increased success in our prestige product. We believe that this is a high-quality business and has the opportunity to continue to grow.

So a lot of confidence in our loss ratio performance and increasing confidence in our ability to compete even in a competitive environment. And I would suggest to you that while we're not immune from the competition that's out there, our strategy to move towards kind of mid-market and upper middle market account business and really being a preferred market for the high-quality agents in this sector is providing us the resiliency and the pricing persistency that we were hoping for.

Inside those pricing trends, I can assure you that we're making a lot of -- we're adapting our pricing on a segmented basis and making sure that we're getting high-quality new business and that we're protecting our best renewals.

So over time, net-net, we believe that you will see our retentions drift back up to the mid-80s where they should be and that our new business will elevate back to pre-pandemic levels.

Operator

Next question comes from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Jack, I wanted to ask you a question about kind of high level. I mean, you touched on in your opening remarks about, I mean, obviously, a core piece of Hanover is your strong agency relationships and it's a very differentiated approach.

Can you talk a little bit about kind of how those relationships have changed or how they've gone during this pandemic period kind of over the past 3 to 6 months? Kind of what you've learned from kind of those relationships with an asset at Hanover? And maybe if those relationships have changed in any way?

John Conner Roche
President, CEO & Director

Sure. Yes, let me give you some high-level response to that and then maybe Dick to chime in, based on all the hard work that he's been driving through our partnership strategy along with Bryan.

Listen, net-net, we think that this pandemic environment has caused us to be even more focused on our distribution strategy, showing our partner agents that we are going to do everything we can to help them be successful and assume that if we do that well, we'll be rewarded with profitable growth. And the reach out, as we spoke about in our prepared remarks is significant.

All of us on the senior team, all of our field leaders have been doing extensive work. I think we are one of the only companies that actually had our annual agency recognition function that we replicated virtually instead of being able to do it in-person. We've done a number of CIAB calls instead of our ability to go to Colorado in that important industry function.

We're doing agency town halls. We're doing branch visits virtually. And frankly, the response we're getting from our agency partners is really positive, and not just because of the emotional part of it, but because they need help navigating through these dynamic times. And so we're spending a lot of time not only talking about how this is affecting them and how they're generating new business activity and what help they need for us to do that, but also, there's an increased focus, as you would expect on the digital capabilities that are building, the ability to bring expertise-based content to the customers, the ability to service claims in a better and unique way.

All of that innovation work that we're doing with our agents is just becoming more relevant in this environment. So I would say the appreciation we're getting from the consolidators, the Marsh agencies, the HUB Internationals, the U.S. size, all those folks, all the way down to the small and midsized agencies, I think they're feeling the strength of our partnership more than ever.

Dick, do you want to add here?

Richard William Lavey
Executive VP & President of Hanover Agency Markets

Yes, only briefly. I mean, great answer, Jack. And I would suggest, if anything, we've deepened our relationships in many situations during this time.

And it's also showing us that they're -- they have a real thirst for sort of data and more importantly, insight. So our agency insight tool that we bring to them is in higher demand. And as referenced in our opening comments, we're working on the next-generation of that tool to try to bring in more relevant insights.

We're responding to their demand and need for digital marketing capabilities, right, during these times, whether that's a virtual expert or bringing some claims insights or some interesting industry content to the table.

So our agility allows us to plug-in quickly and our accessibility and connectedness is really paying dividends during this period.

Matthew John Carletti
JMP Securities LLC, Research Division

All right. Great. That's really helpful. And then just one follow-up, really a follow-up to Jack. You had some comments about fairly detailed on the Specialty business.

My question is, when -- I think when you guys have talked about this in the past, a big piece of the focus has been that you have existing Hanover customers that buy a specialty product elsewhere, and building this capability, obviously, will allow them to consolidate the relationship further with Hanover.

And I'd be curious just if you could provide some color on the success you've seen in the Specialty Line so far, how much of it has been kind of along those lines versus kind of new customers to Hanover that weren't a preexisting relationship or a cross-sell?

John Conner Roche
President, CEO & Director

Yes. Listen, I will make a few comments, but I think Bryan would love to share with you a few data points around that. But our bounce back in the third quarter in specialty was significant.

And I think what we saw, not only in terms of the growth, but also in terms of the agency interaction, there is even more focus, I think, at the large and midsized agents to look at their portfolios and figure out how much of their specialized specialty business they should be placing direct to the carrier versus over relying on wholesalers.

There'll always be a need for wholesalers. They provide a very important function for either agents that don't have expertise or just don't have the capacity to remarket some of that business. But make no mistake, the agents that have been exercising a lot of M&A and have been consolidating the industry are increasingly looking at how they can get better economics and better serve their customers on the specialty side more directly.

And we -- that's what we built this company around, what's the ability to get after that, both capability and from an operating model standpoint, and it's really paying dividends right now. Bryan, do you want to just make a few data points around that?

Bryan James Salvatore
Executive VP & President of Specialty

Yes, sure. Thanks, Jack. And thanks, Matt. Just a few things. So earlier, Jack had mentioned our growth of 5% in a number of our areas, right, management liability, health care, E&S, Specialty Property, all getting double-digit increases. And honestly, also our -- even our marine and our professional liability areas are getting decent growth.

So nice growth across the book. And when we look at where it's coming from, it's disproportionately coming from our better Hanover over agents. In fact, it's really a subset of the Hanover agents that are driving the vast majority of our business. So the proposition is resonating with them.

And one of those areas was the E&S capability that we expanded to be focused on the retailer, that's up by 10% just for the quarter. It's new, and we're still growing it. We introduced a financial institutions capability in the beginning of the year. It's exceeding its plan for the year. And across both of those, Matt, we're seeing really good -- we're seeing some independent purchases, but we're seeing some really good purchases from existing customers of Hanover or accounts that our agents are bringing to us and asking us to place in a coordinated way.

So I think we have a lot of really good proof points from the work that we've been doing to really drive that relevance to our agents from our Specialty offerings. Hopefully, that helps.

Operator

Next question is from Paul Newsome with Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could just kind of review with us the map behind your capital management and how you got to the $100 million of accelerated buyback.

Just to give us a sense of kind of where you are from a capital perspective as well as how you're thinking about it, if there's been any material changes as well.

Jeffrey Mark Farber
Executive VP & CFO

Thanks, Paul. As we've talked about before, we have a number of different capital metrics we use. We have our own economic capital, which is sort of our true north. S&P has a capital model, and then Moody's has a framework around gross underwriting leverage and PMLs, et cetera.

But we always keep a set of redundancy in terms of our cushion to keep plenty of capital and also have plenty of opportunities for growth.

In the current year, our earnings were very strong, and we had more modest or subdued growth. So that created a substantial capital redundancy that we feel we had to do something with.

So through, let's say, today, we probably have already bought a little over $100 million of capital, and we felt very comfortable with $100 million in an ASR. That, coupled with the valuation levels, provides an extraordinarily low payback period in terms of buying back the stock.

Paul Newsome
Piper Sandler & Co., Research Division

I guess, it goes without saying that the prioritization, if we think about future buybacks, has not materially changed.

Jeffrey Mark Farber
Executive VP & CFO

Well, we have -- we still have ample capital, and that's excluding the capital that was raised in August when we issued $300 million of debt and paid down $175 million subordinated debentures, which had a 6.35% coupon. So that capital is earmarked to be redeployed, hopefully with larger rebounded growth in 2021. We anticipate, with the improving margins, rate versus loss trend, the rebounding economy that we can grow at or above industry levels, getting into '21 at single -- mid-single digits or even better, and much of that capital can be redeployed.

But again, depending on the level of earnings, the level of cat you have in any given year. We still feel good about opportunities for stock buyback as well.

Operator

[Operator Instructions]

Next question comes from Meyer Shields of KBW.

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

I want to focus on Personal Auto. I understand what you're saying. It seems to match with regard to the recovering frequency, but it does seem like there's a lot of moving parts right now with maybe more people working from home than they had in the past or higher unemployment or an aversion to public transportation. Can you talk about, I guess, how quickly can you make rate changes as these factors evolve? And how important is that level of agility in your target market?

John Conner Roche
President, CEO & Director

It's critical, Meyer. So thanks for asking that question.

As you may recall, a couple of years ago, we spent a significant amount of money rebuilding our platform in Personal Lines with this exact purpose in mind.

The added benefit of that personal lines point-of-sale and infrastructure build is that we have a much better ease of doing business and a much better appeal to our agent account execs.

But make no mistake, the major rationale for investing in the new Personal Lines infrastructure was to be able to have a more sophisticated home product pricing and also to be able to more rapidly update our multivariate pricing models and get them to market quickly. So it is super critical. And even though it is our direct strategy to try to provide our customers and our agents with some level of pricing stability, there's a lot of variance inside each state and each kind of segmentation that allows your pricing to be potent and to be effective.

So this is a huge part of our Personal Line strategy is to have the capabilities of a multivariate product, but then deliver it to a customer set that isn't as pricing sensitive, but you still need to be able to maneuver in a way where you're getting market pricing, but you're getting the right segmentation of that pricing so that the quality of your customer base continues to improve.

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

Okay. That's exactly what I needed to know. Second question. As of the end of September, are the delayed cancellation and non-renewals, have both all been cleared or will there be an impact in the fourth quarter?

John Conner Roche
President, CEO & Director

I think, we're going to be -- we'll have been through the majority of them, right? We've seen the trends start to reverse, so cancellations are coming back to normal. And we're actually even seeing some positivity coming through on endorsements as people are adding vehicles and other adjustments. So I believe the majority of that is behind us here.

Jeffrey Mark Farber
Executive VP & CFO

And if you remember, back to the second quarter, we really pushed ourselves hard to make sure that even beyond the cancellations that were coming out of the moratoriums, we were also looking very carefully at the exposure bases in our Commercial Lines business and making sure that we are capturing as much of that as quickly as possible. So we weren't having to reconcile that in 2021.

So we'll see how that all plays out for us and for the industry. But I think we're -- I think we've been as conscious about trying to get our earned premium as accurate as we can so that we can grow in a substantial way going forward.

Operator

This concludes our question-and-answer session. Now I'd like to turn the conference back over to Ms. Oksana Lukasheva for closing remarks. Please go ahead.

Oksana Lukasheva
Vice President of Investor Relations & Financial Planning

Thank you, everyone, for your participation today, and we're looking forward to speaking to you next quarter.

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